



**State of Delaware
Office of the Governor**

Ruth Ann Minner
Governor

December 6, 2002

To the People of Delaware
and the Honorable Members of the
142nd General Assembly

I am pleased to submit the State of Delaware's Comprehensive Annual Financial Report for fiscal year 2002. In addition to providing sound information for policymakers and legislators, this all-inclusive financial report is designed to encourage taxpayers to understand their state government's financial activities.

Included herein are the State's Basic Financial Statements, prepared in conformity with Generally Accepted Accounting Principles (GAAP) and audited jointly by KPMG LLP and the Office of the State Auditor of Accounts.

Despite a sustained national economic slowdown, Delaware's economic and fiscal conditions remain sound as the enclosed report demonstrates. Our long history of prudent financial management and sound fiscal controls, coupled with the decisions we make to sustain our economy and investments to protect our unique quality of life, have allowed the State to weather the current economic challenges. These efforts helped Delaware earn a second reaffirmation of the nation's highest bond ratings —Aaa from Moody's Investors Service, AAA from Fitch IBCA and AAA from Standard & Poor's—signifying its place among the most creditworthy states in the nation.

I am proud to report that we have effectively managed the economic and fiscal challenges that have confronted us through the end of fiscal 2002, and will continue to do so in fiscal 2003 and beyond. As we face these challenges, I am confident that Delaware will continue its long tradition of prudent financial management.

Sincerely,


Ruth Ann Minner
Governor

State of Delaware

Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal.....	i
Certificate of Achievement for Excellence in Financial Reporting.....	xi
Selected State Officials.....	xii
Organizational Chart.....	xiii

FINANCIAL SECTION

Independent Auditor's Report	2
Management Discussion and Analysis	4

Basic Financial Statements

Government –Wide Financial Statements

Statement of Net Assets	19
Statement of Activities.....	20

Governmental Fund Financial Statements

Balance Sheet	24
Reconciliation of the Governmental Funds Balance Sheet To the Statement of Net Assets.....	25
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	26
Reconciliation of the Net Changes in Fund Balances - Total Governmental Funds To Change in Net Assets of Governmental Activities	28

Proprietary Funds

Statement of Net Assets	31
Revenues, Expenses, and Changes in Fund Net Assets	32
Statement of Cash Flows	33

Fiduciary Funds

Statement of Net Assets	36
Statement of Changes in Fiduciary Net Assets	37

Component Unit Financial Statements

Combining Statements of Net Assets	41
Combining Statement of Activities	42

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies	47
Note 2 - Accounting Changes	58
Note 3 - Cash, Investments and Restricted Assets	61
Note 4 - Receivables	66
Note 5 - Interfund Receivables, Payables and Transfers	68
Note 6 - General Obligation Bonds	69
Note 7 - Revenue Bonds	72
Note 8 - Loans and Notes Payable	77
Note 9 - Lease Commitments	82
Note 10 - Other Long Term Obligations	84
Note 11 - Changes In Long-term Obligations	85
Note 12 - No Commitment Debt (Not Included In Financial Statements)	86
Note 13 - Capital Assets	87
Note 14 - Risk Management	88
Note 15 - Pensions	89
Note 16 - Affiliated Organizations	104
Note 17 - Contingencies	105
Note 18 - Subsequent Event	106

Required Supplementary Information

Budgetary Basis Vs. GAAP	108
Budgetary Comparison Schedule – General Fund	110
Budgetary Comparison Schedule – Special Fund	111
Budgetary Statement of Revenues, Expenditures and Changes In Fund Balance – General and Special Funds	112
Statutory/Budgetary Reconciliation	113
Information About Infrastructure Assets Reported Using the Modified Approach	115

STATISTICAL SECTION

Condensed Statement of Revenues, Expenditures, and Changes In Fund Balance – General Fund	118
Revenues By Source and Expenditures by Function - All Governmental Funds	120
Population Statistics	122
Per Capita Personal Income	122
Composition of Delaware Labor Force	123

Non-Agricultural Employment Growth Rates	124
Percentage Distribution of Employment	124
Unemployment Rates.....	125
Delaware's Largest Private Employers.....	125
Property Valuation, Construction and Bank Deposits	126
School Enrollment.....	126
Debt Limits.....	127
Ratio of Annual General Obligation Debt Service to Total Revenues, And Expenditures – All Governmental Fund Types	129
Ratio of General Obligation Bonded Debt per Capita	129
Revenue Bond Coverage	
Delaware Transportation Authority.....	130
Delaware State Housing Authority.....	130
Delaware State University	131



**State of Delaware
Office of the Governor**

**Ruth Ann Minner
Governor**

December 6, 2002

To the People of Delaware
and the Honorable Members of the
142nd General Assembly

I am pleased to submit the State of Delaware's Comprehensive Annual Financial Report for fiscal year 2002. In addition to providing sound information for policymakers and legislators, this all-inclusive financial report is designed to encourage taxpayers to understand their state government's financial activities.

Included herein are the State's Basic Financial Statements, prepared in conformity with Generally Accepted Accounting Principles (GAAP) and audited jointly by KPMG LLP and the Office of the State Auditor of Accounts.

Despite a sustained national economic slowdown, Delaware's economic and fiscal conditions remain sound as the enclosed report demonstrates. Our long history of prudent financial management and sound fiscal controls, coupled with the decisions we make to sustain our economy and investments to protect our unique quality of life, have allowed the State to weather the current economic challenges. These efforts helped Delaware earn a second reaffirmation of the nation's highest bond ratings —Aaa from Moody's Investors Service, AAA from Fitch IBCA and AAA from Standard & Poor's—signifying its place among the most creditworthy states in the nation.

I am proud to report that we have effectively managed the economic and fiscal challenges that have confronted us through the end of fiscal 2002, and will continue to do so in fiscal 2003 and beyond. As we face these challenges, I am confident that Delaware will continue its long tradition of prudent financial management.

Sincerely,


Ruth Ann Minner
Governor



STATE OF DELAWARE
DEPARTMENT OF FINANCE
DIVISION OF ACCOUNTING
540 SOUTH DUPONT HIGHWAY
THOMAS COLLINS BUILDING (D570C), SECOND FLOOR, SUITE 3
DOVER, DELAWARE 19901

FAX: (302) 744-1045

TELEPHONE: (302) 744-1035

December 6, 2002

Governor Ruth Ann Minner
Honorable Members of the 142nd General Assembly
and the Citizens of Delaware

It is my pleasure to present the 2002 Comprehensive Annual Financial Report (CAFR) for the State of Delaware. The report for the fiscal year ended June 30, 2002 has been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Responsibility for the accuracy of data, as well as the completeness and fairness of its presentation – including all disclosures – rests with the Department of Finance. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the State primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

The (CAFR) has been prepared in accordance with GASB Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and related GASB Statements Number 37 and 38. The objective of this new reporting model is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

The CAFR is presented in three sections, as outlined below.

- The Introductory Section is comprised of this transmittal letter, a list of key State officials, the State's organizational chart and the Certificate of Achievement for Excellence in Financial Reporting for the June 30, 2001 CAFR.
- The Financial Section includes the independent auditors' report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provides an introduction to and an overview and analysis of the Basic Financial Statements, the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than the MD&A, which includes budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules.
- The Statistical Section includes selected financial, economic and demographic information, presented on a multi-year basis.

GASB Statement Number 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of the MD&A. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report.

PROFILE OF THE GOVERNMENT

The State of Delaware reporting entity reflected in the CAFR, which is described more fully in Note 1 to the basic financial statements, conforms with the requirements of GASB Statement Number 14, The Financial Reporting Entity. The accounting and reporting principles contained in Statement Number 14 are based primarily on the fundamental concept that elected officials are accountable to their constituents. Further, Statement Number 14 provides that the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. Consequently, the transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the discretely presented component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

The State budgets and controls its financial activities on the cash basis of accounting during its fiscal year. In compliance with State law, the State records its financial transactions in either of two major categories – the budgetary General Fund or budgetary Special Funds. References to these funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same

name which encompass different funding categories. Because GAAP fund definitions for accounting purposes differ from those of the budgetary basis General and Special Funds, the GAAP funds are fully explained in Note 1 to the basic financial statements.

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. All disbursements from the budgetary General Fund must be authorized by appropriations of the General Assembly.

Budgetary Special Funds are designated for specific purposes. The appropriate budgetary Special Fund is credited with tax or other revenue allocated to such fund and is charged with the related disbursements. Examples of specific uses of budgetary Special Funds include State park operations and fees charged by the Public Service Commission and the Division of Professional Regulation. Federal payments, unemployment compensation and local school funds are examples of non-appropriated Special Funds. Some Special Funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

Budgetary Control and Financial Management Systems

Disbursements are controlled by an encumbrance accounting system that is designed to provide information on the actual extent of the State's obligations (as determined by purchase orders issued) and to guard against over-committing available funds. Appropriations are reduced immediately when purchase orders are issued for goods and services. The total amount of budgetary General Fund cash disbursements plus unliquidated encumbrances cannot exceed the amount appropriated by the General Assembly for any budget line.

Although the majority of the State's financial transactions are processed through the accounting system, certain Special Funds have financial activity, such as investments, outside the system. For example, the Transportation Trust Fund, the Delaware State Housing Authority and Delaware State University all maintain outside financial activity. This activity is governed in strict adherence to legislative regulations as well as guidelines established by their Boards. In addition, these entities are audited annually and produce published financial reports.

Budget Process

As noted earlier, all disbursements from the budgetary General Fund and certain Special Funds must be authorized by appropriation of the General Assembly. In the fall of the calendar year, each State agency submits to the Budget Office a request for operating and capital funds for the ensuing fiscal year. Public hearings on the requests are subsequently conducted. The Governor's proposed operating and capital budgets for the General Fund and Special Funds, including the Transportation Trust Fund, are then

drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the Governor's proposed operating and capital budgets, respectively. As amended, the budgets are expected to be passed prior to July 1 and signed by the Governor shortly thereafter.

Federal funds are not appropriated, but are subject to the review and approval of the State Budget Office and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Budget Director, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

Appropriation Limit

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary General Fund revenue plus the unencumbered budgetary General Fund balance from the previous year. An appropriation exceeding this limit may be made in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly, but no appropriation may be made exceeding 100% of estimated budgetary General Fund revenue plus the unencumbered General Fund balance from the previous year.

Budget Reserve Account

The Budget Reserve Account is designed to provide a cushion against unanticipated revenue shortfalls. The State Constitution provides that at the end of a fiscal year excess unencumbered budgetary General Funds must be placed in a reserve account (the "Budget Reserve Account") provided that the amount of funds in the Budget Reserve Account does not exceed 5% of the estimated budgetary General Fund revenue used to determine the appropriation limit for that fiscal year. Transfers of \$.9 million were made which funded the Budget Reserve Account for fiscal 2002 to the maximum limit of \$128.9 million. Money from the Budget Reserve Account may be appropriated only with the approval of a three-fifths vote of the members of each house of the General Assembly and only for use to fund an unanticipated General Fund deficit or to provide funds required as a result of the enactment of legislation reducing revenue.

Tax Limitations

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees. Any tax or license fee increase or the imposition of any new tax or license fee must be passed by a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote, except for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due.

Internal Control

The State has established and maintains internal control designed to ensure that the assets of the State are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that evaluation of costs and benefits requires estimates and judgments by State officials. Determination as to the adequacy of the internal control is made within the above framework. State officials believe the State's internal control adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

Risk Management

The State is directly exposed to various risks or losses related to employee health care, automobile, worker's compensation, police professional malpractice and a portion of property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks because of prohibitive cost. Instead, the State covers all claim settlements and judgments out of its budgetary General Fund. The State continues to carry commercial insurance for other risks of loss, including a portion of the property and casualty liability.

Cash Management

Investment of State funds is the responsibility of the Cash Management Policy Board. The Board, created by State law, establishes policies for, and the terms, conditions and other matters relating to, the investment of all money belonging to the State, except money in any State pension fund (reported in the financial statements as the Pension Trust Fund). The Board is comprised of nine members including the Secretary of Finance, the Secretary of State, the State Treasurer, and the Controller General, serving ex-officio, and five members from the private sector appointed by the Governor and confirmed by the State Senate.

Debt Administration

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance, and all debt issuance is subject to the approval of the State's Bond Issuing Officers (the Governor, Secretary of Finance, Secretary of State, and the State Treasurer). The State has a three-part debt limit which restricts the principal amount of new "tax-supported obligations of the State" authorized in any one fiscal year to 5% of estimated net budgetary General Fund revenue for that fiscal year and establishes certain tests to be met at the time of debt issuance.

Delaware's commitment to fiscal responsibility is widely recognized in financial markets. Beginning in fiscal 2000, each of the three rating agencies evaluating Delaware awarded the State their highest rating:

Moody's Investors Service:	Aaa
Standard & Poors:	AAA
Fitch IBCA	AAA

The rating agencies cite Delaware's continued sound financial management, substantial budget reserves, effective debt management and resilient economy as reasons for the upgrade to their highest possible rating.

Pension Plan

The Delaware State Employees' Pension Plan (the Plan) covers approximately 31,700 active employees and approximately 15,200 retired employees. All State employees (except State Police and State judges) and all local school district employees who qualify as full-time and regular part-time employees participate in the Plan. The other plans funded by the State include the old State Police Pension Plan, the new State Police Pension Plan, and the State Judiciary Pension Plan. The Plan assets, along with the other plans are known as the Delaware Public Employees' Retirement System (PERS).

The PERS is managed by a Board of Pension Trustees comprised of members from the private sector appointed by the Governor, with the Secretary of Finance and the Director of the Office of State Personnel serving as ex-officio members. The PERS provides retirement, disability and survivor benefits. The PERS is funded on an actuarially sound basis, as determined by the Pension Trustees, based on annual actuarial analyses undertaken by Milliman & Robertson, Inc.

Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council (DEFAC), created in 1977, is comprised currently of 34 members appointed by the Governor from the executive and legislative branches of State government and the private sector.

DEFAC is mandated by executive order to submit to the Governor and the General Assembly revenue forecasts for the budgetary General Fund and Transportation Trust Fund six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, not later than October 1. Budgetary General Fund and Transportation Trust Fund expenditure

forecasts are generated for the current fiscal year in December, March, April, May and June.

The Transportation Trust Fund is a major part of the State's operating and capital budgets, and, as such, its revenue and expenditures are forecasted along with the budgetary General Fund. Its financial activities are presented separately as an enterprise fund in the accompanying financial statements. Certain budgetary appropriated and non-appropriated Special Funds (i.e., certain user fees and federal funds) are not forecasted through this process.

DEFAC relies on projections of national economic trends, an external econometric model, an econometric model created by the University of Delaware, projections developed by the State's Departments of Finance and Transportation, its members' knowledge of the State's particular economic strengths and weaknesses, and its members' understanding of the structure of the State's revenue system.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with the State's constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. DEFAC meetings are open to the public and provide a general forum for members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

ECONOMIC CONDITION AND OUTLOOK

Delaware enjoyed a healthy expansion throughout most sectors of its economy during the 1990's. Throughout the decade, for example, the State consistently outperformed national growth rates. Recent economic performance for the United States has slowed and so has that in Delaware. The economic slowdown, however, is expected to be relatively mild by historic standards and Delaware is poised to add to the economic gains made during the 1990's.

Delaware's population and workforce continue to grow at a rate greater than the region and the national average. With the median household income 11.5% higher than the national income and the cost of living only 4.2% higher than average, Delaware continues to be an attractive place to work and live. The state's personal income---the majority of which consists of labor and proprietor's income---grew by 4.9% from 2000 to 2001, compared with 3.9% for the mid-Atlantic region and 3.7% for the nation.

Once regarded primarily as a manufacturing state with high concentrations of employment in chemicals and automobile manufacturing, more recently strong FIRE (finance, insurance and real estate) and services (including government and trade) sectors have become the two largest components of the Delaware economy, representing over 75% of all employment. Manufacturing continues to be a significant

part of the Delaware economy, but its share of total employment is down from 21% in 1991 to 13% in 2001 as a result of the growth and diversification of other sectors of the economy. This fundamental change in the economic base enabled the State to weather the recessions of the early 1990's and the early part of this decade better than most states. This trend is expected to continue and will help Delaware expand its economic base in periods of economic expansion and to diminish the State's exposure to the inevitable cyclical downturns in the economy.

Delaware also continues to be the legal home of over half of all publicly traded firms in the United States. Delaware is the legal domicile of more than 58% of the companies listed in the "Fortune 500." Since 1989, Delaware has ranked within the top five states in the number of new incorporations.

Looking to the future, Delaware is aggressively pursuing high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology and information technology. To build on the presence of established leaders in the biotech field like AstraZeneca and DuPont, the State appropriated a total of \$7.5 million over the last two budget cycles to create and expand the Delaware Biotechnology Institute and the Fraunhofer Institutes. The Institutes are partnerships involving State government, Delaware's higher education institutions and the private sector designed to expand the State's scientific base and create opportunities for the development of new technologies in the emerging life sciences field.

CURRENT DEVELOPMENTS AND MAJOR INITIATIVES

Strong Financial Management

Delaware's long tradition of handling taxpayers' dollars wisely and efficiently has been recognized by AAA bond ratings. Four principles form the core of this approach: 1) controlling base budget growth; 2) developing sound and responsible tax policy; 3) encouraging debt reduction and utilizing excess one-time cash for capital projects; and 4) maintaining sizable cash balances in reserve. Next year marks the 25th Anniversary of the State's establishing core financial controls such as an independent revenue forecasting body, a 98% appropriations limit, debt limits, and a rainy day fund.

Beginning in fiscal year 2000, the three principal rating agencies, Moody's Investors Service, Fitch IBCA, and Standard & Poor's have rated Delaware's General Obligation bonds Aaa, AAA, and AAA, respectively. They cite such factors as sound financial management and operations, manageable debt burden and above-average wealth and income levels as reasons for awarding Delaware their highest possible ratings.

Delaware's ability to successfully weather the current economic woes has successfully demonstrated Delaware's commitment to sound fiscal management and the underlying strength and resilience of the Delaware economy. According to the National

Association of State Budget Officers, Delaware is one of only six states to finish FY 2002 with revenue receipts higher than budget estimates at the beginning of the fiscal year. As a result, the State was able to enact balanced operating and capital budgets without dipping into cash reserves, layoffs, or significant cuts in government service levels. With cash balances as a percentage of revenue that are the second highest in the nation, according to National Association of State Budget Officers, Delaware stands well prepared to continue to weather any economic storms that may be on the horizon.

Economic forecasts suggest that Delaware's economy and revenue growth will continue to outpace those of other states, even during an economic slowdown or recession.

INDEPENDENT AUDIT

The accounting firm of KPMG LLP and the State Auditor of Accounts has audited the accompanying Basic Financial Statements for the State of Delaware as of, and for the year ended, June 30, 2002. The audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and the significant estimates made by management; and evaluating the overall financial statement presentation. KPMG LLP and the Auditor of Accounts have concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the CAFR for the fiscal year ended June 30, 2002, is fairly presented in conformity with GAAP. The Auditors' report on the financial statements is included in the financial section of this report.

In addition to the annual audit of the CAFR, the State Auditor of Accounts also performs periodic financial and compliance audits of the various State departments, agencies and institutions of higher education and has primary responsibility for conducting audits under the federal Single Audit Act of 1984. Results of these audits may be found in separately issued audit reports.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its comprehensive annual financial report for the fiscal year ended June 30, 2001. This is the seventh consecutive year that the State has received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe our current report continues to meet the Certificate of Achievement program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report on a timely basis was made possible by the support of all State agencies and component units that supplied data. I wish to express my special appreciation to my staff and the Division of Accounting as well as all the other individuals and agencies who assisted in the preparation of this report.

Sincerely,

A handwritten signature in black ink, appearing to read 'David W. Singleton', with a stylized, sweeping flourish extending to the right.

David W. Singleton
Secretary of Finance

STATE OF DELAWARE
SELECTED STATE OFFICIALS
As of June 30, 2002

CERTAIN ELECTED OFFICIALS:

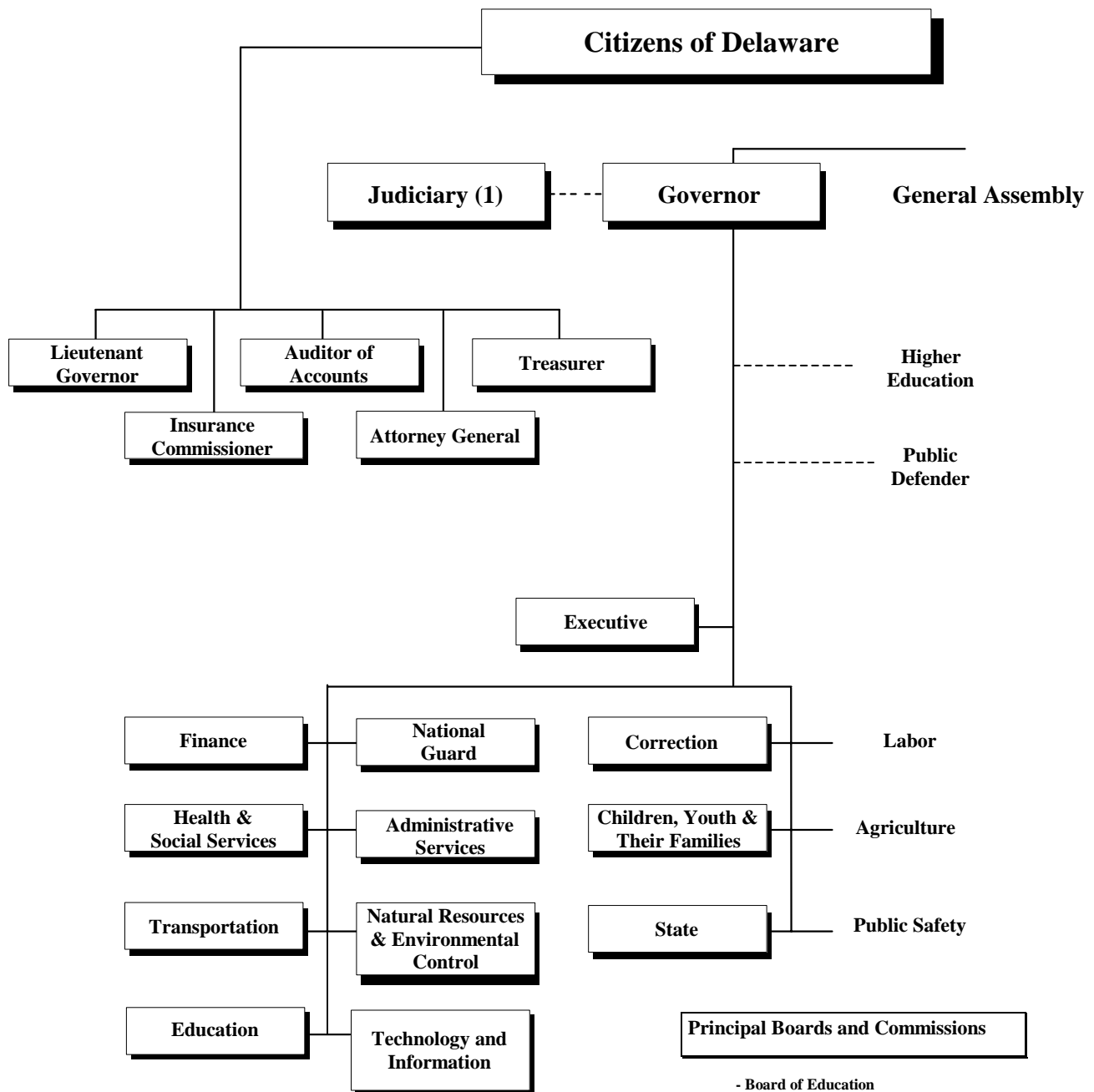
Governor	Ruth Ann Minner
Lt. Governor	John C. Carney
Attorney General	M. Jane Brady
State Treasurer	Jack A. Markell
State Auditor	R. Thomas Wagner
Insurance Commissioner	Donna Lee H. Williams

CERTAIN LEGISLATIVE OFFICIALS:

President Pro Tem of the Senate	Thomas B. Sharp
Senate Majority Leader	Thurman G. Adams, Jr.
Senate Minority Leader	Steven H. Amick
Speaker of the House of Representatives	Terry R. Spence
House of Representatives Majority Leader	Wayne A. Smith
House of Representatives Minority Leader	Robert F. Gilligan

CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

Administrative Services	Gloria Wernicki Homer
Agriculture	Michael T. Scuse
Budget	Peter M. Ross
Corrections	Stanley W. Taylor
Delaware Economic and Development Office	John D. Wik
Delaware State Housing Authority	Saundra R. Johnson
Education	Valerie Woodruff
Finance	David W. Singleton
Health and Social Services	Vincent P. Meconi
Labor	Harold E. Stafford
Natural Resources and Environmental Control	Nicholas A. DiPasquale
National Guard	(Major General) Francis D. Vavala
Personnel	Lisa Blunt-Bradley
Public Safety	James L. Ford, Jr.
Services for Children, Youth and Their Families	Carol Ann DeSantis
State	Harriet N. Smith-Windsor
Technology and Information	Thomas M. Jarrett
Transportation	Nathan Hayward



(1) Judiciary - All Judges are appointed by the Governor with the consent of the Senate.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Delaware

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



William Patrick Pate
President

Jeffrey L. Esser
Executive Director



1601 Market Street
Philadelphia, PA 19103-2499



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

Independent Auditors' Report

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain discretely presented component units, certain major funds, and certain fiduciary funds as disclosed in Note 1(c). The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

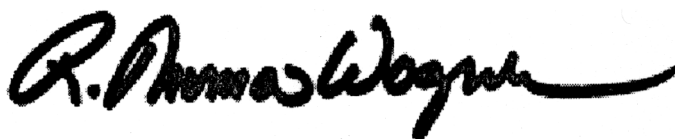


KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

As described in Note 1, the State has implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 35 *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, Statement No. 37 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, Statement No. 38 *Certain Financial Statement Note Disclosures*, and Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001.

The management's discussion and analysis on pages 4 through 16, the budgetary comparison schedules for the general fund and special fund on pages 108 through 114, and the information about infrastructure assets reported using the modified approach on pages 115 through 116 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



KPMG LLP

Auditor of Accounts
Dover, Delaware

December 5, 2002

Management's Discussion and Analysis

We offer readers of the State of Delaware's financial statements this narrative overview and analysis of the financial activities of the State of Delaware for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-x of this report.

Because fiscal year 2002 represents the first year in which the State implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, this discussion and analysis provides few comparisons with the previous year. Future reports are required to include extensive comparisons. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the State of Delaware exceeded its liabilities at the close of the most recent fiscal year by \$4.6 billion (net assets). Component units reported net assets of \$519.0, an increase of \$32 million from the previous year.
- The government's total net assets increased by \$125.0 million (2.8%) in fiscal year 2002. Net assets of governmental activities increased by \$129.1 million (9.5%) while net assets of the business-type activities decreased \$4.0 million (0.1%).
- As of the close of the current fiscal year, the State of Delaware's governmental funds reported combined ending fund balances of \$934.6 million, a decrease of \$118.5 million (11.3%) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$580.2 million, or 17.8% of total general fund expenditures. For the most part, the unreserved fund balance is not available for new spending. These funds have been committed based on State statutes.
- The State of Delaware's total general obligation debt increased during the fiscal year to \$709.9 million, an increase of \$56.2 million (8.6%).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State of Delaware's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the State of Delaware's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the State of Delaware's assets and liabilities, with the difference between the two reported as net assets.

Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State of Delaware is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State of Delaware that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State of Delaware include general government, health and children's services, judicial and public safety, natural resources and environmental control, labor and education. The business-type activities of the State of Delaware include transportation, lottery and unemployment.

The government-wide financial statements include not only the State of Delaware (known as the primary government), but also legally separate entities for which the State of Delaware is financially accountable. These entities include: The Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University and nine charter schools. Financial information for these component units are reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 19-21 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Delaware, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State of Delaware can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resources on hand at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State of Delaware maintains four individual governmental funds: the general fund, the capital projects fund, the federal fund and the local school district fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds.

The State of Delaware budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these two funds in this report include the terms “budgetary” or “budgetary basis” to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State of Delaware adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with this budget. The statement can be found on page 108 of this report.

The basic governmental fund financial statements can be found on pages 24-28 of this report.

Proprietary funds. The State of Delaware maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The State of Delaware uses enterprise funds to account for the State Lottery, Unemployment Trust Fund and the Department of Transportation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Trust Fund and the Department of Transportation, all of which are considered to be major funds of the State of Delaware.

The basic proprietary fund financial statements can be found on pages 31-33 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State of Delaware’s own programs. The pension trust funds are the primary fiduciary funds for the State. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 36-37 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-106 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the State of Delaware's status of the legally adopted budget and the maintenance of the State's infrastructure. Required supplementary information can be found on pages 108-116 of this report.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State of Delaware, assets exceeded liabilities by \$4.6 billion at the close of the most recent fiscal year.

By far the largest portion of the State of Delaware's net assets (72.4%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State of Delaware's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 9.6% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (18.0%), may be used at the State's discretion, but for the most part these funds have been appropriated based on State statutes.

Net Assets as of June 30, 2002

	Governmental activities	Business-type activities	Total
Current and other non-current assets	\$ 1,456	\$ 604	\$ 2,060
Capital assets	1,391	3,327	4,718
Total assets	2,847	3,931	6,778
Long-term liabilities outstanding	900	658	1,558
Other liabilities	461	158	619
Total liabilities	1,361	816	2,177
Net assets:			
Invested in capital assets, net of related debt	680	2,651	3,331
Restricted	129	311	440
Unrestricted	677	153	830
Total net assets	\$ 1,486	\$ 3,115	\$ 4,601

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

Changes in Net Assets

(Expressed in Thousands)

	Governmental activities	Business-type activities	Total Primary Government
Revenues:			
Program revenues:			
Charges for services	\$ 861,111	\$ 1,047,300	\$ 1,908,411
Operating grants and contributions	718,815	26,415	745,230
Capital grants and contributions		106,938	106,938
General revenues:			
Taxes:			
Personal income taxes	718,672		718,672
Business taxes	1,153,025		1,153,025
Other taxes	167,258		167,258
Real estate taxes	238,574		238,574
Investment earnings	58,624	26,915	85,539
Gain (Loss) on sale of assets		(60)	(60)
Total revenues	<u>3,916,079</u>	<u>1,207,508</u>	<u>5,123,587</u>
Expenses:			
General Government	808,574		808,574
Health and Children's Services	1,240,332		1,240,332
Judicial and Public Safety	389,806		389,806
Natural Resources and Environmental Control	111,443		111,443
Labor	60,650		60,650
Education	1,410,708		1,410,708
Interest Expense	31,576		31,576
Lottery		380,084	380,084
Transportation		448,839	448,839
Unemployment		116,538	116,538
Total expenses	<u>4,053,089</u>	<u>945,461</u>	<u>4,998,550</u>
Increase in net assets before transfers	(137,010)	262,047	125,037
Transfers	<u>266,090</u>	<u>(266,090)</u>	
Increase (decrease) in net assets	129,080	(4,043)	125,037
Net assets - Beginning of Year	<u>1,357,396</u>	<u>3,119,105</u>	<u>4,476,501</u>
Net assets - End of Year	<u>\$ 1,486,476</u>	<u>\$ 3,115,062</u>	<u>\$ 4,601,538</u>

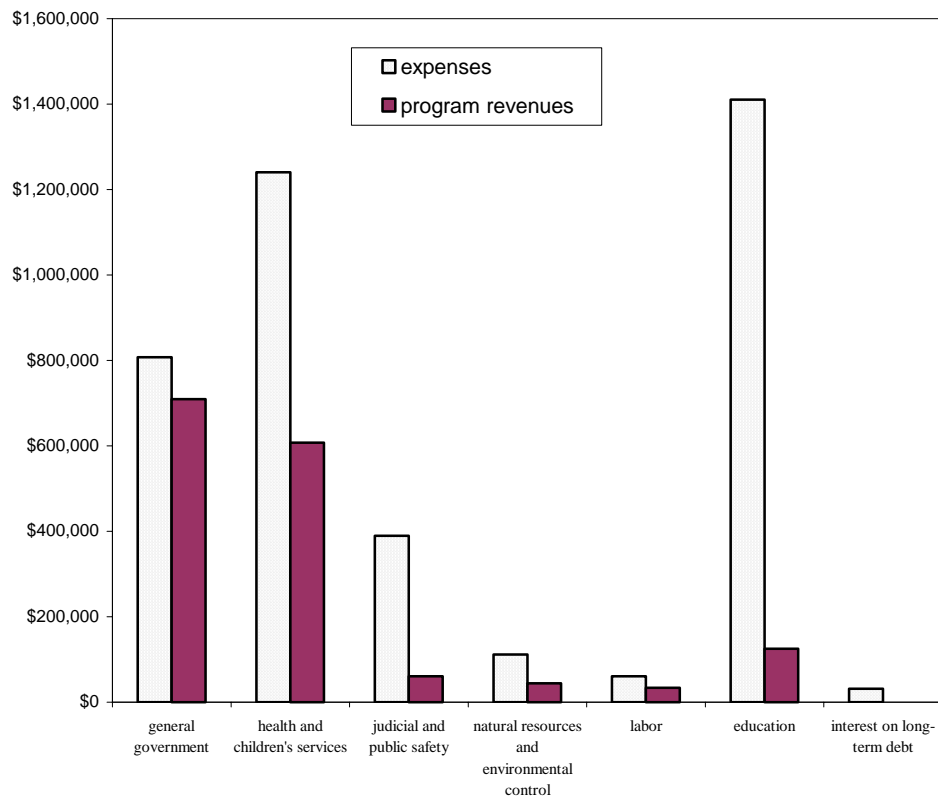
Governmental activities. Governmental activities increased the State of Delaware's net assets by \$129.1 million, thereby accounting for more than the State's growth in net assets of \$125.0 million. The decrease by the business-type activities is explained on the following page. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the increase in net assets are as follows:

Total general revenues increased \$39.9 million based on growth in corporate income tax, realty transfer tax and bank franchise tax. Lottery revenues showed continued growth of 12.4% adding \$25.4 million to the State's General Fund. Personal income tax decreased \$77.7 (9.8%) due to various tax law changes.

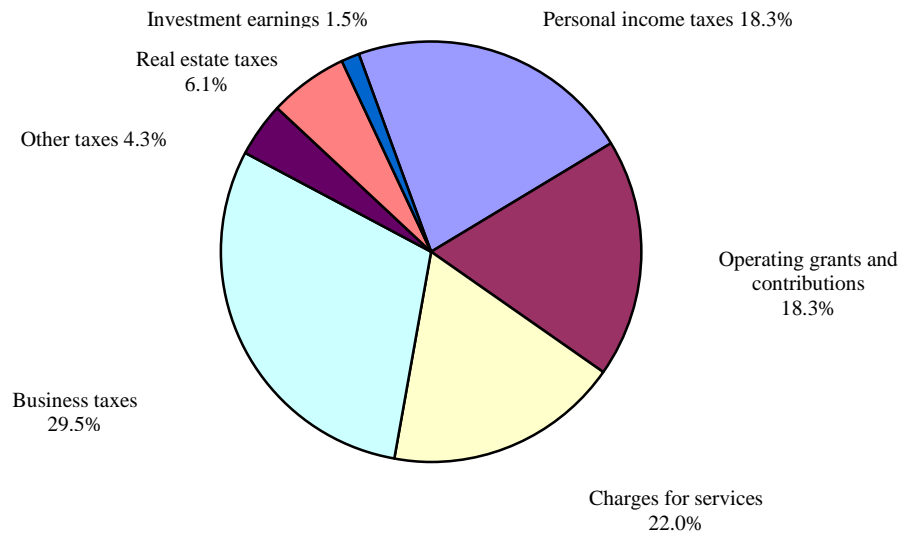
Charges for services and operating grants and contributions increased by \$55.2 million, primarily due to an increase in grant revenues.

Expenses for governmental activities increased during fiscal year 2002 by \$112.2 (2.9%). Of this increase, \$66.1 million was due to increased spending in education and a \$71.0 million increase in Health and Children's Services. The General Government function showed a decrease in spending of \$28.2 million.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



Business-type activities. Business-type activities decreased the State's net assets by \$4.0 million. This resulted from a \$9.3 million decrease in net assets by the Delaware Unemployment Insurance Trust Fund, a decrease of \$.4 million in the Delaware State Lottery and an increase in net assets of \$5.7 million by the Delaware Department of Transportation.

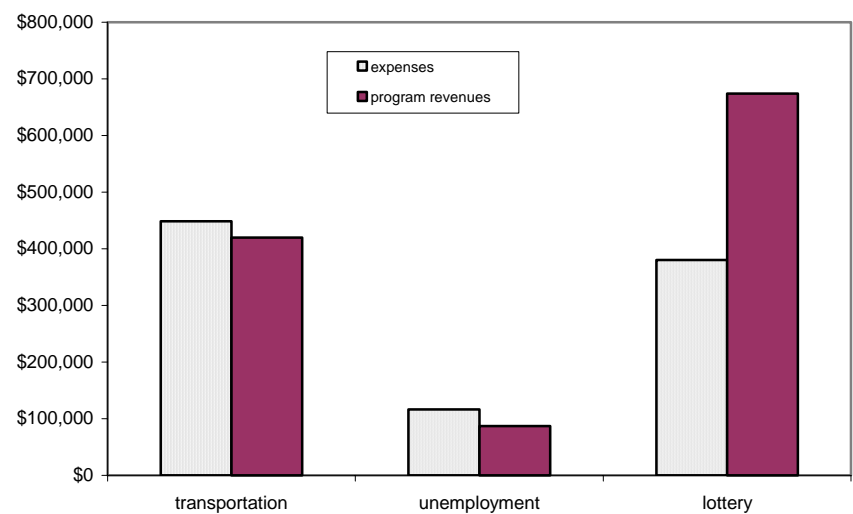
The decrease in net assets of the Delaware Unemployment Insurance Trust Fund was similar to the \$14.1 million decrease in fiscal year 2001 and can be attributed to a 27% increase in unemployment benefits, which was partially offset by a \$26 million grant from the federal government. The grant was used to pay unemployment benefits.

The Delaware Lottery increased operating income by 12% and transferred an additional \$25.4 million to the State's General Fund in fiscal year 2002.

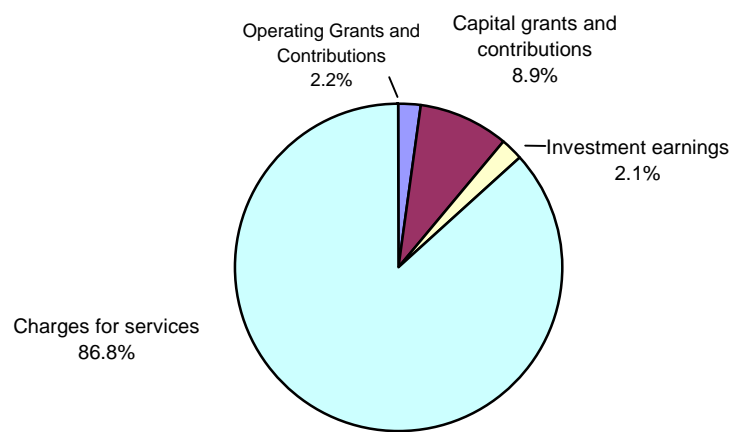
The Delaware Department of Transportation experienced an increase in revenues due partially to increased traffic on State toll roads and an increase in gasoline consumption. Contributing factors for the increase in operating expenses for fiscal year 2002 are the investments in the Diamond State Port Corporation, the spending down of excess cash reserve and increased hours and miles of transit service.

The Department of Transportation's decrease of non-operating revenues, net, is primarily attributable to the decrease in federal grant revenue of \$24.1 million and a \$6.4 million reduction of income from investments solely from the economic impact of the Federal Reserve's rate reductions.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the State’s Funds

As noted earlier, the State of Delaware uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the State of Delaware’s governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State of Delaware’s financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government’s net resources at the end of the fiscal year.

As of the end of the current fiscal year, the State of Delaware's governmental funds reported combined ending fund balances of \$934.6 million, a decrease of \$118.5 million in comparison with the prior year. Approximately one-half of the aggregate fund balances, \$467.3 million constitutes unreserved fund balances. The unreserved fund balances, for the most part are not available for new spending. These funds have been committed based on State statutes. The remainder of the fund balances are reserved to indicate that they are not available for new spending due to commitments: 1) to liquidate contracts and purchase orders of the prior period (\$252.1 million), 2) to pay debt service (\$66.0 million), 3) set aside for the budget reserve account (\$128.9 million), or 4) for inventories and other prepaid items (\$20.3 million).

The general fund is the chief operating fund of the State of Delaware. At the end of the current fiscal year, unreserved fund balance of the general fund was \$580.2 million, while total fund balance reached \$921.6 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17.8% of total general fund expenditures, while total fund balance represents 28.3% of that same amount.

Total fund balance diminished during the fiscal year by \$82.5 million primarily as a result of lower personal and business tax collections due to a slowing economy. Based on anticipated further reductions in revenues, budget cuts were initiated and a hiring freeze was implemented early in the fiscal year to soften the impact on the fund balance. However, as of the end of fiscal 2002, general fund expenditures were below the level of appropriations and revenues exceeded budgeted amounts.

Proprietary funds. The State of Delaware's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As discussed in the business-type activities on page 10, the State's net assets decreased by \$4.0 million as a result of operations in the proprietary funds. This resulted from a \$9.3 million decrease in net assets by the Delaware Unemployment Insurance Trust Fund, a decrease of \$.4 million in the Delaware State Lottery and an increase in net assets of \$5.7 million by the Delaware Department of Transportation.

General Fund Budgetary Highlights

The Budgetary General Fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance diminished slightly (\$28.1 million). Revenues were higher (4.2 percent) than the previous fiscal year due to an increase in the collections from the corporate income tax, the realty transfer tax and the bank franchise tax, although personal income and corporate franchise taxes were down slightly. As it became apparent that the economy was slowing, measures were taken to reduce spending.

The following summarizes the differences between the final appropriated budget (the original budget in addition to encumbrances and multi-year project budgetary carry-forwards from the prior fiscal year) and actual expenditures.

- \$84.0 million in decreases in general government activities
- \$95.5 million in decreases in education
- \$32.1 million in decreases in Health and Children's services
- \$15.8 million in decreases in the Department of Natural Resources and Environmental Control.

Capital Asset and Debt Administration

Capital assets. The State of Delaware's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to \$4.7 billion (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in the State of Delaware's investment in capital assets for the current fiscal year was \$301.4 million (a 23.5% increase for governmental activities and a 1.1% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Various building system additions and improvements were completed for schools, correctional facilities and other state facilities at a cost of \$64.0 million.
- On-going construction projects continued at an additional cost of \$193.0 million and will provide new schools, a new courthouse and additional prison facilities, as well as additions and improvements to existing schools and other state facilities.
- The Department of Transportation added \$36.6 million in capital assets during fiscal year 2002. The Department is in the process of completing a 41 mile controlled access highway extending from south of Wilmington to points south of Dover. Funding for the final section of highway from south of Odessa to north of Smyrna is part of the Department's six-year Capital Transportation Program and will be finished in May 2003. SR1 is the largest public works project ever undertaken in Delaware. In addition, the Department completed construction of a new Delaware Transit Corporation administration building and a new south wing on the Department's Dover Administration complex.

State of Delaware Capital Assets as of June 30

(Net of Depreciation)

	Governmental activities	Business-type activities	Total Primary Government
Land	\$ 265,155	\$ 11,230	\$ 276,385
Land Improvements	23,160		23,160
Buildings	525,653	33,419	559,072
Easements	64,344		64,344
Equipment and vehicles	50,652	80,297	130,949
Infrastructure		3,201,814	3,201,814
Construction-in-progress	<u>462,119</u>		<u>462,119</u>
Total	<u>\$ 1,391,083</u>	<u>\$ 3,326,760</u>	<u>\$ 4,717,843</u>

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 11,057 lane miles of roads and approximately 1,359 bridges that the State is responsible to maintain.

The Department of Transportation will perform condition assessments of eligible infrastructure assets at least every three years. Currently road condition assessments are conducted every year and bridge condition assessments are conducted, for the most part, every two years.

It is the Department of Transportation's policy to maintain at least 75 percent of its highways and bridge system at a good or better condition level. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition.

Of the State's 1,359 bridges, 1,057 or 77.7 percent received a good or better BCR rating in 2001, 17.1 percent were rated fair, and 5.2 percent received a substandard rating. Of the 787,243 square meters of bridge deck, 97 percent or 763,388 square meters received an OPC good condition rating, 2 percent received a fair rating and 1 percent or 8,343 square meters received a substandard deck rating.

In 2002, when 4,175 centerline miles were rated, 76.6 percent received a good or better OPC rating, 13.6 percent received a fair rating, and 9.8 percent received a poor rating.

The 2002 estimate to maintain and preserve the Department of Transportation's infrastructure was \$97.3 million, but the actual expenditure was \$126.6 million, which is a \$29.2 million increase over the estimate. The variance is predominantly attributed to change orders necessary on jobs that are not estimated when the project is set up and budgeted. The increase in the estimate of maintenance and preservation costs from the previous fiscal year is primarily due to new categories of expenditures being used by the Department's Capital Transportation program.

The fiscal 2003 statewide capital budget totals \$407.2 million. Of that amount, \$182.4 million is allocated for non-transportation projects statewide and \$224.7 million for Transportation Trust Fund projects. Major projects that will to be completed during the year include the New Castle County Courthouse, various school construction projects and the new SR1 toll road.

Additional information on the State of Delaware's capital assets can be found in Note 1 on pages 55-56, Note 13 on page 87 and on pages 115-116 of the Required Supplementary Information.

Long-term debt. At the end of the current fiscal year, the State of Delaware had total general obligation bond debt outstanding of \$709.9 million, backed by the full faith and credit of the State. The Delaware Department of Transportation Fund had revenue bonds outstanding of \$675.7 million. The bonds do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State. The Delaware Economic Development Office has \$.4 million of industrial development revenue bonds outstanding, which are supported by the full faith and credit of the State.

**State of Delaware Outstanding Debt
General Obligation and Revenue Bonds**

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total Primary Government</u>
General obligation bonds	\$ 709.9		\$ 709.9
Revenue bonds	<u>0.4</u>	\$ <u>675.7</u>	<u>676.1</u>
Total	<u>\$ 710.3</u>	<u>\$ 675.7</u>	<u>\$ 1,386.0</u>

The State of Delaware's total debt increased by \$56.2 million (8.6%) during the current fiscal year in part because there were no bonds sales in the previous fiscal year. The key factors in this increase were for public education facilities, prison construction, State offices and higher education facilities. During the current fiscal year, the State refinanced \$132.7 million or 18.7% of its outstanding debt to take advantage of favorable interest rates. The result is expected to save taxpayers over \$6.4 million in future interest payments.

Transportation Systems Revenue Bonds are issued with the approval of the State's General Assembly, and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Authority to issue bonds to refund any of its bonds provided a present value debt service savings is achieved in such refunding.

At June 30, 2002, the Department had \$675.7 million in revenue bonds outstanding, a 6.5 percent increase from June 30, 2001. During the past year, \$85 million of new money bonds were issued in November 2001 and \$91.1 million of bonds were refunded in April 2002. The bonds were insured and are rated AAA by Standard & Poor's (S&P) and Aaa by Moody's. Of the 11 outstanding bond issues,

four have an AA rating from S&P and an A1 rating from Moody's. The remaining seven issues are rated AAA by S&P and Aaa by Moody's.

There is no Constitutional debt limit of the State; however, in 1991, the State enacted legislation to replace the previous statutory debt limits with a three-part debt limit, one of which restricts new debt authorization to 5% of budgetary General Fund revenue as projected on June 30 for the next fiscal year. Should revenue collections increase during the fiscal year, no additional authorizations are made. For further information concerning the State's debt limits, see page 125 of the Statistical Section.

Additional information on the State of Delaware's long-term debt can be found in Note 6 on pages 69-72 of this report.

Economic Factors and Next Year's Budgets and Rates

Fiscal year 2002's GDP was raised from 0.6 percent growth forecasted in March 2002 to an estimated growth rate of 1.1 percent as per the Delaware Economic and Financial Advisory Council's (DEFAC) June 2002 forecast. The real GDP forecast for fiscal year 2003 is still modest growth of 3.1 percent. Employment in Delaware has declined by 1.5 percent during the current fiscal year. This drop has mostly been in the area of service and retail jobs. Continued job losses in the chemical sector have also occurred.

The fiscal year 2003 operating and capital budgets meet budgetary spending limitations imposed by law. Although the budget reflects slowing growth in revenues, operating programs are all funded. Capital budget appropriations have decreased from fiscal year 2002 due to revenue availability and the reduction in cash contributions for one-time items.

Requests for Information

This financial report is designed to provide a general overview of the State of Delaware's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 540 South DuPont Highway, Thomas Collins Building, Suite 3, Dover, Delaware

The State's component units, with the exception of Charter Schools, publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices or from the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 435,105	\$ 332,534	\$ 767,639	\$ 19,047
Investments	200,206	150,418	350,624	69,516
Accounts and other receivables, net	204,345	44,348	248,693	87,724
Internal Balances	2,738	(2,738)		
Inventories	4,800	8,699	13,499	432
Prepaid items and deferred charges	15,548	822	16,370	2,893
Loans and notes receivable, net	119		119	
Other current assets	10,117	780	10,897	1,767
Total current assets	872,978	534,863	1,407,841	181,379
Noncurrent Assets:				
Cash and cash equivalents - restricted		1,185	1,185	18,358
Long-term investments	517,178	25,333	542,511	141,321
Accrued Interest Receivable			0	2,707
Long-term investments-restricted		13,915	13,915	
Loans and notes receivable, net	65,955	27,500	93,455	385,219
Capital assets, net	1,391,083	3,326,760	4,717,843	354,929
Other noncurrent assets		1,739	1,739	13,428
Total noncurrent assets	1,974,216	3,396,432	5,370,648	915,962
Total assets	\$ 2,847,194	\$ 3,931,295	\$ 6,778,489	\$ 1,097,341
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 282,215	\$ 41,515	\$ 323,730	\$ 14,481
Accrued liabilities	18,600	32	18,632	5,904
Intergovernmental payables	5,658		5,658	
Interest payable	12,087	16,996	29,083	
Notes Payable				4,633
Deferred revenues				925
Capital leases				203
Escheat Liabilities	19,688		19,688	
Compensated absences		3,791	3,791	26
Claims and judgments	38,207	30,936	69,143	
Current portion of long-term debt	83,909	41,490	125,399	17,930
Other current liabilities		23,767	23,767	
Total current liabilities	460,364	158,527	618,891	44,102
Noncurrent liabilities:				
Claims and judgments	59,207	8,568	67,775	
Pension obligation	71,756		71,756	
Compensated absences	114,934	7,405	122,339	696
Escheat Liabilities	28,000		28,000	
Long-term debt	626,457	634,245	1,260,702	490,803
Other noncurrent liabilities		7,488	7,488	42,749
Total noncurrent liabilities	900,354	657,706	1,558,060	534,248
Total liabilities	1,360,718	816,233	2,176,951	578,350
Net Assets				
Invested in capital assets, net of related debt	680,717	2,651,025	3,331,742	262,176
Restricted	128,930	310,619	439,549	220,188
Unrestricted	676,829	153,418	830,247	36,627
Total net assets	1,486,476	3,115,062	4,601,538	518,991

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

Function:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General Government	\$ 808,574	\$ 679,810	\$ 29,223	
Health and Children's Services	1,240,332	108,695	498,691	
Judicial and Public Safety	389,806	41,417	18,944	
Natural Resources and Environmental Control	111,443	20,662	23,541	
Labor	60,650	77	33,452	
Education	1,410,708	10,450	114,964	
Interest Expense	31,576			
Total governmental activities	<u>4,053,089</u>	<u>861,111</u>	<u>718,815</u>	
Business-type activities:				
Lottery	380,084	674,049		
Transportation	448,839	312,680		\$ 106,938
Unemployment	116,538	60,571	26,415	
Total business-type activities	<u>945,461</u>	<u>1,047,300</u>	<u>26,415</u>	<u>106,938</u>
Total primary government	<u>\$ 4,998,550</u>	<u>\$ 1,908,411</u>	<u>\$ 745,230</u>	<u>\$ 106,938</u>
Component units:				
Delaware State Housing Authority	\$ 79,128	\$ 30,974	\$ 43,962	\$ 953
Diamond State Port Corporation	27,299	25,733		17,000
Riverfront Development Corporation	13,895	4,469	675	
Delaware State University	57,721	18,279	14,248	6,795
Delaware Charter Schools	13,502			
Total component units	<u>\$ 191,545</u>	<u>\$ 79,455</u>	<u>\$ 58,885</u>	<u>\$ 24,748</u>
General Revenues				
Taxes:				
Personal income taxes				
Business taxes				
Other tax revenue				
Real estate taxes				
Payments from primary government				
Investment earnings				
Gain (Loss) on sale of assets				
Special Item				
Gain on debt forgiveness				
Miscellaneous				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning of Year				
Net Assets - End of Year				

See Accompanying Notes to the Financial Statements

Net (Expenses) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (99,541)		\$ (99,541)	
(632,946)		(632,946)	
(329,445)		(329,445)	
(67,240)		(67,240)	
(27,121)		(27,121)	
(1,285,294)		(1,285,294)	
(31,576)		(31,576)	
(2,473,163)		(2,473,163)	
	\$ 293,965	293,965	
	(29,221)	(29,221)	
	(29,552)	(29,552)	
	235,192	235,192	
(2,473,163)	235,192	(2,237,971)	
			\$ (3,239)
			15,434
			(8,751)
			(18,399)
			(13,502)
			(28,457)
718,672		718,672	
1,153,025		1,153,025	
167,258		167,258	
238,574		238,574	
			49,392
58,624	26,915	85,539	8,892
	(60)	(60)	(368)
			3,570
			(1,007)
266,090	(266,090)		
2,602,243	(239,235)	2,363,008	60,479
129,080	(4,043)	125,037	32,022
1,357,396	3,119,105	4,476,501	486,969
\$ 1,486,476	\$ 3,115,062	\$ 4,601,538	\$ 518,991

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002
(Expressed in Thousands)

	General	Federal Fund	Local School District Fund	Capital Projects Fund	Total Governmental Funds
ASSETS					
Assets:					
Cash and cash equivalents	\$ 425,650	\$ 803	\$ 8,652		\$ 435,105
Investments	573,196		144,188		717,384
Accounts receivable, net	38,966	1,519	672		41,157
Taxes receivable, net	87,949		7,254		95,203
Intergovernmental receivables, net		67,985			67,985
Due from other funds	115,523				115,523
Inventories	4,760		40		4,800
Prepaid items	7,774	7,774			15,548
Loans and notes receivable	66,074				66,074
Other assets	10,117				10,117
Total assets	<u>\$ 1,330,009</u>	<u>\$ 78,081</u>	<u>\$ 160,806</u>		<u>\$ 1,568,896</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 190,900	\$ 43,649	\$ 34,467	\$ 13,199	\$ 282,215
Accrued liabilities	18,600				18,600
Claims and judgments	38,207				38,207
Escheat Liability	19,688				19,688
Intergovernmental payables	231	5,427			5,658
Due to other funds		17,607		95,178	112,785
Deferred revenues	140,744	9,655	6,736		157,135
Total liabilities	<u>408,370</u>	<u>76,338</u>	<u>41,203</u>	<u>108,377</u>	<u>634,288</u>
Fund balances:					
Reserved for:					
Encumbrances	133,972	27,674	9,003	81,445	252,094
Inventories and other assets	4,760		40		4,800
Prepaid Items	7,774	7,774			15,548
Long-term portion of loans and notes receivable	65,955				65,955
Budget reserve	128,930				128,930
Unreserved	580,248	(33,705)	110,560	(189,822)	467,281
Total fund balances	<u>921,639</u>	<u>1,743</u>	<u>119,603</u>	<u>(108,377)</u>	<u>934,608</u>
Total liabilities and fund balances	<u>\$ 1,330,009</u>	<u>\$ 78,081</u>	<u>\$ 160,806</u>	<u>\$ 0</u>	<u>\$ 1,568,896</u>

See Accompanying Notes to the Financial Statements

State of Delaware**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**

Total Fund Balance - Governmental Funds \$ 934,608

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets (net of depreciation) consist of:

Land	\$ 265,155	
Land Improvements	23,159	
Buildings	523,452	
Easements	64,345	
Equipment and vehicles	52,853	
Construction in Progress	<u>462,119</u>	
		1,391,083

Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

157,135

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Interest payable	(12,087)	
Claims and judgments (long-term)	(59,207)	
Compensated absences	(114,934)	
Pension Obligation	(71,756)	
Long-term debt	(710,366)	
Escheat Liability	(28,000)	
		<u>(996,350)</u>

Net assets of governmental activities \$ 1,486,476

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	<u>General</u>	<u>Federal Revenue Funds</u>
REVENUES		
Personal taxes	\$ 713,832	
Business taxes	1,151,734	
Other tax revenue	166,739	
Real estate taxes		
Licenses, Fees, Permits and fines	555,409	58
Rentals & sales	26,592	13
Federal government	52,279	678,107
Interest & other investment income	46,756	56
Other	212,267	3,399
Total revenues	<u>2,925,608</u>	<u>681,633</u>
EXPENDITURES		
Current:		
General Government	817,258	12,662
Health and Children's Services	781,383	479,745
Judicial and Public Safety	386,457	21,151
Natural Resources and Environmental Control	100,218	25,083
Labor	27,131	33,441
Education	1,064,539	106,683
Capital Outlay		
Debt Service:		
Principal	79,757	
Interest and other charges	34,134	
Total expenditures	<u>3,290,877</u>	<u>678,765</u>
Excess (deficiency) of revenues over expenditures	<u>(365,269)</u>	<u>2,868</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	333,566	
Transfers out	(30,020)	(8)
Proceeds from General Obligation Bonds		
Payment to Bond Refunding Agent	(20,764)	
Total other financing sources and uses	<u>282,782</u>	<u>(8)</u>
Net change in fund balances	(82,487)	2,860
Fund balances - beginning	1,004,126	(1,117)
Fund balances - ending	<u>\$ 921,639</u>	<u>1,743</u>

See Accompanying Notes to the Financial Statements

Local School District Funds	Capital Projects Funds	Total Governmental Funds
		\$ 713,832
\$ 29		1,151,763
		166,739
238,925		238,925
1,490		556,957
22,971		49,576
1,532		731,918
11,795	\$ 17	58,624
40,468		256,134
<u>317,210</u>	<u>17</u>	<u>3,924,468</u>
		829,920
		1,261,128
		407,608
		125,301
		60,572
309,393		1,480,615
	168,418	168,418
		79,757
		34,134
<u>309,393</u>	<u>168,418</u>	<u>4,447,453</u>
<u>7,817</u>	<u>(168,401)</u>	<u>(522,985)</u>
4,329	30	337,925
(18,431)	(23,376)	(71,835)
	159,144	159,144
		(20,764)
<u>(14,102)</u>	<u>135,798</u>	<u>404,470</u>
(6,285)	(32,603)	(118,515)
125,888	(75,774)	1,053,123
<u>\$ 119,603</u>	<u>\$ (108,377)</u>	<u>\$ 934,608</u>

See Accompanying Notes to the Financial Statements

State of Delaware**Reconciliation of the Net Changes in Fund Balances****- Total Governmental Funds to Changes in Net Assets
of Governmental Activities****\$ (118,515)**

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays
as expenditures. However, in the statement of
activities, the cost of those assets is allocated
over their estimated useful lives as depreciation
expense. This is the amount by which capital
outlays exceeded depreciation in the current period.

264,715

Revenues in the statement of activities that do not
provide current financial resources are not reported
as revenues in the funds.

54,935

Bond proceeds provide current financial resources
to governmental funds, but issuing debt increases
long-term liabilities in the statement of net assets.
Repayment of bond principal is an expenditure in the
governmental funds, but the repayment reduces
long-term liabilities in the statement of net assets.
This is the amount by which proceeds exceeded
repayments.

(56,066)

Some expenses reported in the statement of activities
do not require the use of current financial resources
and therefore are not reported as expenditures
in the governmental funds:

Accrued interest expense (921)

Self-insurance (4,932)

Compensated absences (224)

Pensions obligation (9,912)

Change in Net Assets of Governmental Activities**\$ 129,080**

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	Lottery	DELDOT	Total
Asset				
Current Assets:				
Cash and cash equivalents	\$ 319,449	\$ 1,979	\$ 11,106	\$ 332,534
Investments		2,612	147,806	150,418
Accounts receivable, net	4,847	12,867	3,242	20,956
Taxes receivable, net	14,246			14,246
Intergovernmental receivables, net			8,129	8,129
Interest and investment revenue receivable, net			1,017	1,017
Inventories			8,699	8,699
Prepaid items		266	556	822
Due from other governments	780			780
Total current assets	<u>339,322</u>	<u>17,724</u>	<u>180,555</u>	<u>537,601</u>
Noncurrent Assets:				
Cash and cash equivalents-restricted			1,185	1,185
Long-term investments			25,333	25,333
Long-term investments-restricted		13,915		13,915
Loans and notes receivable			27,500	27,500
Other Assets		1,739		1,739
Capital assets, net		664	3,326,096	3,326,760
Total noncurrent assets		<u>16,318</u>	<u>3,380,114</u>	<u>3,396,432</u>
Total Assets	<u>\$ 339,322</u>	<u>\$ 34,042</u>	<u>\$ 3,560,669</u>	<u>\$ 3,934,033</u>
Liabilities				
Current Liabilities				
Accounts payable	\$	\$ 8,939	\$ 32,576	41,515
Accrued liabilities			32	32
Prizes liability		7,950		7,950
Escrow deposits			1,175	1,175
Tax refunds payable	727			727
Due to other funds		2,738		2,738
Compensated absences			3,791	3,791
Claims and judgments	27,986		2,950	30,936
Bonds, notes and loans payable			41,490	41,490
Interest Payable			16,996	16,996
Liabilities payable from restricted assets		13,915		13,915
Total Current Liabilities	<u>28,713</u>	<u>33,542</u>	<u>99,010</u>	<u>161,265</u>
Noncurrent Liabilities				
Compensated absences			7,405	7,405
Claims and judgments			8,568	8,568
Bonds, notes, and loans payable			634,245	634,245
Bond premium, net				
of accumulated amortization			7,488	7,488
Total Noncurrent Liabilities			<u>657,706</u>	<u>657,706</u>
Total Liabilities	<u>28,713</u>	<u>33,542</u>	<u>756,716</u>	<u>818,971</u>
Net Assets				
Invested in Capital Assets, net of related debt		664	2,650,361	2,651,025
Restricted for:				
Unemployment Benefits	310,609			310,609
Other restricted			10	10
Unrestricted		(164)	153,582	153,418
Total Net Assets	<u>310,609</u>	<u>500</u>	<u>2,803,953</u>	<u>3,115,062</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	Lottery	DELDOT	Total
Operating Revenues				
Unemployment insurance	\$ 60,571			\$ 60,571
Charges for sales and services		\$ 674,049		674,049
Turnpike revenues			\$ 88,807	88,807
Motor fuel tax revenue			107,713	107,713
Motor vehicle document fee revenue			55,180	55,180
Motor vehicle registration fee revenue			28,023	28,023
Other motor vehicle revenue			14,297	14,297
International Fuel Tax Agreement revenue			3,873	3,873
Federal highway reimbursements			283	283
Property management revenue			1,070	1,070
Passenger fares			8,612	8,612
Advertising			313	313
Auxiliary transportation			458	458
Miscellaneous revenue			4,051	4,051
Total Operating Revenues	<u>60,571</u>	<u>674,049</u>	<u>312,680</u>	<u>1,047,300</u>
Operating Expenses				
Unemployment benefits expense	116,538			116,538
Cost of sales and services		316,115		316,115
Prizes and claims/ judgments		59,181	3,805	62,986
Transportation			379,493	379,493
Depreciation		191	14,046	14,237
General and administrative		4,597	18,691	23,288
Total Operating Expenses	<u>116,538</u>	<u>380,084</u>	<u>416,035</u>	<u>912,657</u>
Operating Income (Loss)	<u>(55,967)</u>	<u>293,965</u>	<u>(103,355)</u>	<u>134,643</u>
Nonoperating Revenues (Expenses)				
Interest and investment revenue	20,209		6,706	26,915
Grants	26,415			26,415
Interest expense			(32,804)	(32,804)
Loss on Disposal of Assets			(60)	(60)
Total Nonoperating Revenues (Expenses)	<u>46,624</u>	<u></u>	<u>(26,158)</u>	<u>20,466</u>
Income (Loss) Before Transfers	(9,343)	293,965	(129,513)	155,109
Transfers In			29,990	29,990
Transfers Out		(294,406)	(1,674)	(296,080)
Capital grants			106,938	106,938
Change in Net Assets	<u>(9,343)</u>	<u>(441)</u>	<u>5,741</u>	<u>(4,043)</u>
Total Net Assets - Beginning	<u>319,952</u>	<u>941</u>	<u>2,798,212</u>	<u>3,119,105</u>
Total Net Assets - Ending	<u>\$ 310,609</u>	<u>\$ 500</u>	<u>\$ 2,803,953</u>	<u>\$ 3,115,062</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Business-Type Activities- Enterprise Funds			
	Unemployment	Lottery	DELDOT	Total
Cash Flows from Operating Activities				
Receipts from employers	\$ 54,933			\$ 54,933
Payments for insurance claims	(105,740)		\$ (1,459)	(107,199)
Receipts from customers and users		\$ 671,435		671,435
Other operating receipts		30	312,966	312,996
Payments to suppliers for goods and services		(42,189)	(408,230)	(450,419)
Payments to employees for services		(1,559)		(1,559)
Payments for prizes		(60,465)		(60,465)
Payment for commissions		(275,930)		(275,930)
Other receipts (payments)			986	986
Net Cash Provided (Used) by Operating Activities	(50,807)	291,322	(95,737)	144,778
Cash Flows from Noncapital Financing Activities				
Federal grants and other contributions	26,415		3,422	29,837
Transfers in			29,990	29,990
Transfers out		(294,956)	(1,674)	(296,630)
Net Cash Provided (Used) by Noncapital Financing Activities	26,415	(294,956)	31,738	(236,803)
Cash Flows from Capital and Related Financing Activities				
Proceeds from capital debt			88,878	88,878
Capital grants			108,611	108,611
Purchases of capital assets		(15)	(51,013)	(51,028)
Principal paid on capital debt			(39,565)	(39,565)
Interest paid on capital debt			(32,890)	(32,890)
Loan to Diamond State Port Corporation			(27,500)	(27,500)
Other receipts (payments)			279	279
Net Cash Provided (Used) by Capital and Related Financing Activities		(15)	46,800	46,785
Cash Flows from Investing Activities				
Interest and investment revenues	20,209		5,682	25,891
Purchase of Investments			(37,184)	(37,184)
Proceeds from sales and maturities of investments		2,743	26,656	29,399
Net Cash Provided (Used) by Investing Activities	20,209	2,743	(4,846)	18,106
Net Increases (Decrease) in Cash/Cash Equivalents	(4,183)	(906)	(22,045)	(27,134)
Cash/Cash Equivalents - Beginning of Year	<u>323,632</u>	<u>2,885</u>	<u>34,336</u>	<u>360,853</u>
Cash/Cash Equivalents - End of Year	<u>\$ 319,449</u>	<u>\$ 1,979</u>	<u>\$ 12,291</u>	<u>\$ 333,719</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	\$ (55,967)	\$ 293,965	\$ (103,355)	\$ 134,643
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation expense		191	14,046	14,237
Decrease (increase) in assets:				
Decrease (increase) in receivables, net	(5,639)	(2,585)	1,483	(6,741)
Decrease (increase) in inventories			(1,659)	(1,659)
Decrease (increase) in prepaid items		(72)	(472)	(544)
Increase (decrease) in liabilities:				
Increase (decrease) in accounts and other payables	11,185	1,134		12,319
Increase (decrease) in accrued liabilities	(103)	(27)	(11,776)	(11,906)
Increase (decrease) in accrued expenses		(1,284)	6,568	5,284
Increase (decrease) in accrued payroll and related expenses			(572)	(572)
Increase (decrease) in due to/from other governments	(283)			(283)
Net Cash Provided (Used) by Operating Activities	<u>\$ (50,807)</u>	<u>\$ 291,322</u>	<u>\$ (95,737)</u>	<u>\$ 144,778</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	\$ 1,009		\$ 20,894
Receivables:			
Employer contributions	2,924		
Member contributions	1,813		
Other receivables			21,634
Investments, at fair value:			
Domestic fixed income	979,422	\$ 1,906	
Domestic equities	1,217,955	2,371	
Pooled equity & fixed income	1,731,905	3,370	
Private investments	480,753	935	
Short term investments	86,695	155	15,373
Foreign equities	347,217	675	
Total Assets	<u>\$ 4,849,693</u>	<u>\$ 9,412</u>	<u>\$ 57,901</u>
Liabilities			
Accounts payable	759		57,901
Accrued expenses	650		
Total Liabilities	<u>1,409</u>		<u>\$ 57,901</u>
Net Assets			
Assets held in trust for pension benefits and pool participants	<u>\$ 4,848,284</u>	<u>\$ 9,412</u>	
(See schedule of funding status - page 100)			

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds
Additions		
Contributions:		
Employer contributions	\$ 82,469	\$
Transfer of contributions from PRI Fund	32,322	
Transfer of assets from outside the system	2,255	\$ 2,430
Member contributions	37,731	
Other	7	
Total contributions	<u>154,784</u>	<u>2,430</u>
Investments:		
Investment earnings	147,974	288
Net (decrease)/increase in fair value of investments	(447,629)	(817)
Total investment earnings	(299,655)	(529)
Less investment manager/advisor/custody fees	(13,374)	(26)
Less investment administrative expenses	(232)	
Net investment earnings	<u>(313,261)</u>	<u>(555)</u>
Total additions	<u>(158,477)</u>	<u>1,875</u>
Deductions		
Transfer of contributions from PRI Fund	32,322	
Transfer of assets outside the system	6,232	
Pension payments	216,353	
Refunds of contributions to members	2,698	
Group life payments	4,080	
Administrative expenses	4,634	
Total Deductions	<u>266,319</u>	
Change in Net Assets	(424,796)	1,875
Net Assets - Beginning of Year	5,273,080	7,537
Net Assets - End of Year	<u>\$ 4,848,284</u>	<u>\$ 9,412</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	All Component Units Total
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 230	\$ 1,403	\$ 284	\$ 11,643	\$ 5,487	\$ 19,047
Investments	65,518	3,998				69,516
Accounts and other receivables, net	69,196	2,881	243	15,404		87,724
Inventories		389	43			432
Prepaid items	2,456	437				2,893
Other current assets	491			1,276		1,767
Total current assets	137,891	9,108	570	28,323	5,487	181,379
Noncurrent Assets:						
Cash and cash equivalents - restricted		5,893	71	12,394		18,358
Long-term investments	141,320			1		141,321
Accrued Interest Receivable	1,782		925			2,707
Loans and notes receivable, net	379,299		5,477	443		385,219
Capital assets, net	21,302	152,396	65,145	116,086		354,929
Other noncurrent assets	6,086	3,230	3,699	413		13,428
Total noncurrent assets	549,789	161,519	75,317	129,337		915,962
Total assets	\$ 687,680	\$ 170,627	\$ 75,887	\$ 157,660	\$ 5,487	\$ 1,097,341
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 4,852	\$ 2,334	\$ 1,433	\$ 3,938	\$ 1,924	\$ 14,481
Accrued liabilities	321	1,096	77	4,410		5,904
Deferred revenue	608	141	176			925
Capital leases		26		177		203
Compensated absences	26					26
Current portion of long-term debt			5,700			5,700
Notes payable	307	3,326	1,000			4,633
Revenue bonds	11,210		180	840		12,230
Total current liabilities	17,324	6,923	8,566	9,365	1,924	44,102
Noncurrent liabilities:						
Compensated absences	696					696
Notes payable	3,158	55,654				58,812
Revenue bonds	413,559		5,365	13,067		431,991
Other noncurrent liabilities	29,088	3,322	9,970	369		42,749
Total noncurrent liabilities	446,501	58,976	15,335	13,436		534,248
Total liabilities	463,825	65,899	23,901	22,801	1,924	578,350
NET ASSETS						
Invested in capital assets, net of related debt	20,929	101,947	38,384	100,916		262,176
Restricted - Expendable	189,456	2		28,811		218,269
Restricted - Nonexpendable				1,919		1,919
Unrestricted	13,470	2,779	13,602	3,213	3,563	36,627
Total net assets	223,855	104,728	51,986	134,859	3,563	518,991
Total liabilities and net assets	\$ 687,680	\$ 170,627	\$ 75,887	\$ 157,660	\$ 5,487	\$ 1,097,341

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
MAJOR COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Component Units:				
Delaware State Housing Authority	\$ 79,128	\$ 30,974	\$ 43,962	\$ 953
Diamond State Port Corporation	27,299	25,733		17,000
Riverfront Development Corporation	13,895	4,469	675	
Delaware State University	57,721	18,279	14,248	6,795
Delaware Charter Schools	13,502			
Total component units	<u>\$ 191,545</u>	<u>\$ 79,455</u>	<u>\$ 58,885</u>	<u>\$ 24,748</u>

General Revenues

Payments from primary governments
Investment earnings
Gain (Loss) on sale of assets
Special Item
Gain on debt forgiveness
Miscellaneous
Total General Revenues
Change in Net Assets
Net Assets - Beginning of Year (as restated)
Net Assets - End of Year

See Accompanying Notes to the Financial Statements

Net (Expense) Revenue and Changes in Net Assets					
<u>Delaware State Housing Authority</u>	<u>Diamond State Port Corporation</u>	<u>Riverfront Development Corporation</u>	<u>Delaware State University</u>	<u>Delaware Charter Schools</u>	<u>Totals</u>
\$ <u>(3,239)</u>	\$ <u>15,434</u>	\$ <u>(8,751)</u>	\$ <u>(18,399)</u>	\$ <u>(13,502)</u>	\$ <u>(3,239)</u> <u>15,434</u> <u>(8,751)</u> <u>(18,399)</u> <u>(13,502)</u> <u>(28,457)</u>
		8,821	27,985	12,586	49,392
9,780	245	(368)	(1,412)	279	8,892
					(368)
	3,570				3,570
22		85	(1,114)		(1,007)
<u>9,802</u>	<u>3,815</u>	<u>8,538</u>	<u>25,459</u>	<u>12,865</u>	<u>60,479</u>
<u>6,563</u>	<u>19,249</u>	<u>(213)</u>	<u>7,060</u>	<u>(637)</u>	<u>32,022</u>
<u>217,292</u>	<u>85,479</u>	<u>52,199</u>	<u>127,799</u>	<u>4,200</u>	<u>486,969</u>
<u>\$ 223,855</u>	<u>\$ 104,728</u>	<u>\$ 51,986</u>	<u>\$ 134,859</u>	<u>\$ 3,563</u>	<u>\$ 518,991</u>

See Accompanying Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Delaware (the State) have been prepared in conformity with Accounting Principles Generally Accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No.34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities*. These Statements establish new financial reporting requirements for state and local governments and public colleges and universities throughout the United States. The Statements require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The State has adopted the provisions of GASB Statements Nos. 34 and 35 for its fiscal year ended June 30, 2002. With the implementation of GASB Nos. 34 and 35, the State has prepared required supplementary information titled *Management's Discussion and Analysis*, which precedes the basic financial statements.

The State has also implemented the following GASB Statements for the year ended June 30, 2002 in conjunction with GASB Statements Nos. 34 and 35. Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, Statement 38 – *Certain Financial Statement Disclosures* and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

(a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and agencies, bureaus, boards, commissions, and certain authorities that make up the State's legal entity. The nineteen local school districts, which are not legally separate, are included in the reporting entity of the primary government. The Delaware Transportation Authority, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. The State's reporting entity is also comprised of its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Financial accountability is defined in GASB Statement No.14, "The Financial Reporting Entity." The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Blended Component Unit

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity, however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as pension trust funds. The DPERS is audited by other auditors and their report dated September 27, 2002 is publicly available. The financial report of DPERS for the year ended June 30, 2002 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of these entities. Each discretely presented component unit has a June 30 year end.

Delaware State Housing Authority

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The Authority administers the role of affordable housing as a key aspect of State policy. The Authority's relationship with the State is such that exclusion of the Authority from the State's basic financial statements would cause the statements to be misleading or incomplete. The Authority is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the Federal Government and others. The Authority

was audited by other independent auditors, and their report dated September 24, 2002 has been issued under separate cover.

Diamond State Port Corporation

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints six of the nine members of the board of directors with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's general purpose financial statements would cause the statements to be misleading or incomplete. The Corporation was audited by other independent auditors and their report dated August 2, 2002 has been issued under separate cover.

Riverfront Development Corporation

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints six of the 13 board members; however, five of the remaining seven directors consist of the Governor and four State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended. The RDC was audited by other independent auditors, and their report dated October 13, 2002 has been issued under separate cover.

Delaware State University

Delaware State University (DSU) is a public institution of higher education funded primarily through State appropriations. Additional funding is derived from tuition, federal grants and private donations and grants. The Board of Trustees is comprised of 11 members, six appointed by the Governor of Delaware and five elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Other independent auditors audited the University, and their report dated November 4, 2002 has been issued under separate cover.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices or from the Office of the Auditor of Accounts, The Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901. Delaware Charter Schools

Delaware Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government and private donations. Charter schools are each managed

by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial. Due to their immateriality, the information relating to the Delaware Charter Schools has not been audited.

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing board of the Delaware Solid Waste Authority. The primary government's accountability for the Authority does not extend beyond making the appointments. The financial activities of the Authority are not included in the State's financial statements.

Jointly Governed Organization

The Delaware River and Bay Authority, a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey, which border the Delaware River and Delaware Bay. The Authority is governed by twelve (12) commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. The Authority is autonomous from a day-to-day operations perspective and neither State is obligated for the Authority's debt. The Authority is not included in these financial statements as the State of Delaware has no ongoing financial interest.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of State and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State is reported separately from certain legally separate component units for which the State is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the State's enterprise operations and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt

service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven grants is recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental Funds

The State reports the following major governmental funds:

General Fund - The general fund is the State's primary operating fund. It accounts for all financial resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, education, and health and social services.

Federal Fund - The federal fund accounts for all activities relating to the State's federal grant programs.

Local School District Fund - The local school district fund accounts for activities relating to the State's local school districts funded by locally raised real estate taxes and other revenue.

Capital Projects - Transactions related to resources obtained and used for the acquisition or construction of major capital facilities (other than those financed by proprietary and fiduciary funds) are accounted for in Capital Projects Funds. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the General Fund.

Proprietary Funds

Proprietary Funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the general public on a continuing basis are financed by or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the unemployment fund, lottery fund and DelDOT fund are charges to customers for sales and services.

The Lottery recognizes revenue from on-line games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book is paid. Revenue from video lottery sales is recognized, net of prizes paid, at the time the public plays the game.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The State reports the following major proprietary funds:

DelDOT Fund- The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Authority.

Unemployment Fund - The unemployment fund accounts for the activities relating to the State's unemployment insurance program.

Lottery Fund - The lottery fund accounts for the activities relating to the State Lottery program.

Fiduciary Fund Types

The accounts of the pension and investment trust funds are reported using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Agency funds are custodial in nature and do not present results of operations and therefore do not have a measurement focus.

The State reports the following fiduciary fund types:

Agency Funds - Agency funds are custodial in nature and do not involve measurement of the results of operations. They account for the receipt of various taxes, deposits, deductions, and certain property collected by the State, acting in the capacity of an agent, and for the distribution to other governmental units or designated beneficiaries.

Pension Trust Funds - Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits of the Delaware Public Employees' Retirement System (DPERS) (Note 15)

Investment Trust Funds - Investment trust funds are used to account for external investment pools where a government commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The investment trust fund accounts for the transactions, assets, liabilities and fund equity for the Delaware Public Employee Retirement System's external investment pool. (Note 15)

(c) Audit Responsibility

For the year ended June 30, 2002, financial statements of certain separately administered organizations, agencies of the State and component units, included in the reporting entity of the State have been audited by auditors other than KPMG LLP or the Office of the Auditor of Accounts. These entities include the Delaware Public Employees Retirement System, Delaware State University, Delaware State Housing Authority, the Riverfront Development Corporation, the Diamond State Port Corporation, the Delaware State Lottery and the DelDOT Fund (consists of the Delaware Department of Transportation, Delaware Transportation Authority, the Transportation Trust Fund and the Delaware Transit Corporation).

The table below sets forth the proportion (%) of certain key financial information that was subject to audit by other auditors for the year ended June 30, 2002.

	Assets		Liabilities		Revenue		Expense	
Government-Wide Financial Statements								
Business Type Activities	91	%	96	%	94	%	87	%
Component Units	99	%	100	%	94	%	92	%
Fund Financial Statements								
Lottery	100	%	100	%	100	%	100	%
DelDOT Fund	100	%	100	%	100	%	100	%
Pension Trust Fund	100	%	100	%	100	%	100	%
Investment Trust Fund	100	%	100	%	100	%	100	%

(d) Assets, Liabilities, and Net Assets or Equity

Deposits and investments

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. For the purposes of the statement of cash flows, restricted cash is considered to be cash equivalents. Investment securities with maturities of greater than one year are reported as long-term investments.

Investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated

at cost or amortized cost (Note 3). Investment securities with remaining maturities of greater than one year are identified as long-term investments.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles and refunds. (Note 4)

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

The Delaware State Lottery’s mandatory deposit with the Multi-State Lottery and the annuities for future installment prize payments are recorded as restricted assets, as are any assets of the Delaware State University, the Diamond State Port Corporation and the Riverfront Development Corporation that are subject to external restrictions.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, the proprietary funds and component units.

Capital assets are defined by the State as assets with an initial, individual cost of more than \$15,000 at the date of acquisition and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds \$15,000. Building and land improvements are capitalized when the cost of the project exceeds \$100,000. Infrastructure and software is capitalized when the costs of individual items or projects exceed \$1 million.

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous capitol-related artifacts and furnishings.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	Primary	Component
	Government	Units
	<u>Years</u>	<u>Years</u>
Buildings and Building Improvements	40	15 - 75
Land Improvements	20	N/A
Furniture and Equipment	3 - 10	3 - 40
Vehicles	7	N/A

The State has elected to use the “modified approach” to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Compensated Absences

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered “due and payable” and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the

State has accrued a liability for compensated absences, recognizing the obligation to make payments.

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

The State Constitution provides that certain excess unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated General Fund revenue for the ensuing fiscal year. Total funding of the Budget Reserve Account was \$128.9 million at June 30, 2002. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Designations of fund balance represent tentative management plans that are subject to change.

(e) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable and revenue when the related expenditures or expenses are recognized. In addition to monetary transactions, Federal grants also include non-monetary transactions

related to food stamps. Food stamps inventories are reported at coupon value in the General Fund.

(f) Litigation Revenue

In 1997, several states began litigation against several defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to numerous tobacco product users. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states (amounting to \$200 billion, according to estimates) until 2025. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. Delaware's settlement share for fiscal year 2002 was \$29.8 million. This amount is reported in the General Fund as part of "other" revenue. Future payments will be reported as revenue when they are received. No receivable for such payments has been reported pursuant to the settlement since the amounts to be received are contingent as described above. Monies received under the Master Settlement Agreement are dedicated to health care and related programs. Expenditures of these funds are authorized by Legislation.

NOTE 2. ACCOUNTING CHANGES

In fiscal year 2002, the State adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*;
- Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*;
- Statement N. 38, *Certain Financial Statement Disclosures*; and
- Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the State’s governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the State’s statement of net assets will include both noncurrent assets and noncurrent liabilities of the State, which were previously recorded in a General Fixed Assets Account Group and a General Long-term Debt Account Group, respectively. In addition to the fixed assets previously recorded in the General Fixed Assets Account Group, the State retroactively

capitalized infrastructure. The government-wide statement of activities reflects depreciation expenses on the State's fixed assets, excepting infrastructure for which the State has elected the modified approach, as previously described.

In addition to the government-wide financial statements, the State has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The reporting requirements of GASB Statement No. 34, as amended by Statement No. 37, include changes in fund types, elimination of account groups and resulted in fund reclassifications and adjustments to the fund equities reported in the prior financial statements.

Statement No. 35 establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. Delaware State University, reported as a discretely presented component unit, adopted the requirements of Statement No. 35.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement 34. While this Statement did not affect amounts reported in the financial statements of the State, certain note disclosures have been added or amended, including descriptions of activities of major funds, future debt service and lease obligations in five year increments, short-term obligations, interest rates and interfund balances and transactions.

Significant reclassifications in fund equities as previously reported on the Combined Balance Sheet include 1) Unemployment Trust Fund and the DelDOT Fund are now reported as enterprise funds and removed from governmental and trust fund types, 2) the Debt Service Fund reported as part of the General Fund, 3) the Special Revenue Fund is separated into major funds-Federal Fund and Local School Fund, and 4) the amounts related to unreceived grant reimbursements and authorized but unissued bond proceeds are reported as borrowings from the investment pool and deficits. Remaining reclassifications related to various fiduciary accounts that were appropriately classified as agency funds. The schedule on the following page provides additional information related to the reclassifications.

	Governmental Funds				
	General	Federal Fund	Local School Fund	Capital Projects Fund	Debt Service Fund
June 30, 2001 CAFR Fund Balance/Net Assets as previously reported	\$ 762,561	\$ 8,268	\$ 114,232	\$ 194,392	\$ 107,904
Fund Balance Reclassifications	207,851	(7,990)	11,138	(270,167)	(107,904)
Eliminate long-term escheat liability	23,230				
Other Adjustments	10,484	(1,395)	518	31	
June 30, 2001 Fund Balance/Net Assets as restated	<u>\$ 1,004,126</u>	<u>\$ (1,117)</u>	<u>\$ 125,888</u>	<u>\$ (75,744)</u>	<u>\$ —</u>

	Proprietary Funds		
	Unemployment	Lottery	DelDOT
June 30, 2001 Fund Balance/Net Assets as previously reported	\$ —	\$ 941	\$ —
Fund Balance Reclassification	323,696		180,407
Incurred but not reports claims	(3,744)		
Capital Assets net of Debt			2,655,099
Full Accrual Adjustments			(37,294)
June 30, 2001 Restated Fund Balances/Net Assets	<u>\$ 319,952</u>	<u>\$ 941</u>	<u>\$ 2,798,212</u>

	Fiduciary Funds		
	Expendable Trust Funds	Non-Expendable Trust Fund	Agency Trust Funds
June 30, 2001 Fund Balance/Net Assets as previously reported	\$ 349,643	\$ 2,488	
Asset Balances *			\$ 47,543
Fund Balance Reclassification	<u>(349,643)</u>	<u>(2,488)</u>	<u>10,900</u>
June 30, 2001 Restated: Asset Balances - Agency Fund			<u>\$ 58,443</u>
Fund balances/Net Assets	<u>\$ —</u>	<u>\$ —</u>	

	Component Units	
	Delaware State Housing Authority	Delaware Charter Schools
June 30, 2001 Fund Balance/Net Assets as previously reported	\$ 217,698	
Fund Balance Reclassification		\$ 4,200
Other Adjustments	<u>(406)</u>	
Fund balances/Net Assets	<u>\$ 217,292</u>	<u>\$ 4,200</u>

NOTE 3. CASH, INVESTMENTS AND RESTRICTED ASSETS

The Cash Management Policy Board: The policy for the investment of State funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in the DPERS and money held under the State deferred compensation program.

Investment Guidelines and Management: The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

Collateralization Requirements: All State funds are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Keefe, Bruyette & Wood's Bank Watch Service. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has for the last two years, a return on average assets of 5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- (a) U.S. Government securities;
- (b) U.S. Government agency securities;
- (c) State of Delaware securities; or
- (d) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

Cash and Cash Equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and Cash Equivalents as reported on the statement of net assets, may be under the control of the State Treasurer or other administrative bodies as determined

by the Cash Management Policy Board. All cash deposited with the State Treasurer by State agencies is maintained by the Treasurer in various pooled investment funds (State Investment Pool). The State Treasurer invests the deposited cash including the cash float in short-term securities and other investments.

An analysis of cash and investments by category of risk as required by GASB Statement No. 3 is presented below .

(A) DEPOSITS

Primary Government

At June 30, 2002, the carrying value and the bank balances of the State's deposits were \$790,727,000 and \$802,966,000 respectively. Of the bank balances, \$18,772,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized with securities held by the State or by its agent in the State's name (Category 1). \$462,445,000 is uninsured and uncollateralized (Category 3). The remaining \$321,749,000 represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury.

As a condition for operating in the State, various insurance companies have deposited an aggregate amount of \$365,771,000 into escrow. The State Insurance Commission and the insurance companies are joint custodians of such funds. Because the State can neither use nor release these funds without the joint approval of the insurer/depositor, these amounts are not reported in the State's financial statements.

Component Units

Delaware State Housing Authority

The Delaware State Housing Authority's deposits for risk categorization consist of checking accounts and other cash accounts maintained by bank trust departments. The total carrying value and bank balance of the deposits at June 30, 2002 was \$229,813 and \$701,987 respectively. The bank balance was entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name (Category 1).

Diamond State Port Corporation

At June 30, 2002, the carrying value and bank balances of the Diamond State Port Corporation's cash deposits amounted to \$1,403,374 and \$1,638,271, respectively. Of the bank balances, \$100,000 is insured by the FDIC (Category 1), \$1,388,406 is collateralized (Category 2) and \$149,865 is uninsured and uncollateralized (Category

3). \$5,892,709 of restricted cash and cash equivalents consists of short-term investments.

Riverfront Development Corporation

At June 30, 2002, the Riverfront Development Corporation's cash deposits carrying value and bank balances amounted to \$355,633 and \$749,790 respectively. Cash deposits include \$71,177 of restricted cash and cash equivalents. Of the bank balances, \$200,925 is insured by the FDIC (Category 1) and \$542,046 is uninsured and uncollateralized (Category 3). The remaining \$4,572 consists of deposits included in the State Investment Pool.

Delaware State University

At June 30, 2002, Delaware State University's deposit carrying value and bank balance was \$2,592,494 and \$4,015,467, respectively. An additional \$9,050,253 of cash and cash equivalents related to unexpended State appropriations are included on the Statement of Net Assets. Of the bank balances, \$100,000 was insured by FDIC (Category 1) and the remaining \$3,915,467 was uninsured and uncollateralized (Category 3).

Delaware Charter Schools

At June 30, 2002, the Delaware Charter Schools deposits carrying value was \$5,486,612, consisting entirely of deposits included in the State Investment Pool.

B. INVESTMENTS

Primary Government

The table on the following page provides information about the custodial credit risks associated with the State's investments. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent in the State's name. As of June 30, 2002, the State does not have any investments in Category 2. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

The State's Investments below include \$13,915,000 presented as restricted assets on the balance sheet. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized

as to risk because they are not evidenced by securities that exist in a physical or book-entry form.

PRIMARY GOVERNMENT INVESTMENTS

(Expressed in Thousands)

Investment Type	Category		Total Fair Value
	1	3	
Commercial Paper	\$ 115,036	\$ 141,657	\$ 256,693
U.S. Government Agency Securities	75,003	485,411	540,414
Repurchase Agreements	719	134,979	135,698
Foreign Government Securities		21,265	21,265
Negotiable Certificates of Deposit	2,423	25,629	28,052
Pension and Investment Trust			
Funds:			
Domestic Fixed Income	981,328		981,328
Domestic Equities	1,220,326		1,220,326
Short Term Investments *	86,850		86,850
Foreign Equities	347,892		347,892
SUBTOTAL	<u>\$ 2,755,577</u>	<u>\$ 729,242</u>	<u>3,618,518</u>
Pooled Investments not subject to categorization: **			
Pension and Investment Trust			
Investment Pool:			
Pooled Equity & Fixed Income			1,735,275
Private Investments			481,688
SUBTOTAL INVESTMENTS			<u>\$ 5,835,481</u>
Less: Pooled Component Unit Investments			<u>(59,699)</u>
TOTAL STATE INVESTMENTS ***			<u>\$ 5,775,782</u>

* Pension Short Term Investments primarily include Commercial Paper and overnight deposits.

** Investments not evidenced by securities are not categorized.

*** Includes investments classified as restricted assets on the Statement of Net Assets.

	(Expressed in Thousands)			
	Governmental	Business	Fiduciary	
	Activities	Type Activities	Funds	Totals
Cash/Cash Equivalents	\$ 435,105	\$ 332,534	\$ 21,903	\$ 789,542
Restricted Cash/Cash Equivalents		1,185		1,185
Short Term Investments	200,206	150,418	15,373	365,997
Long Term Investments	517,178	25,333		542,511
Restricted Investments		13,915	4,853,359	4,867,274
	<u>\$ 1,152,489</u>	<u>\$ 523,385</u>	<u>\$ 4,890,635</u>	<u>\$ 6,566,509</u>
Less: Carry Value of Deposits				(790,727)
Balance In State Investment Pool				<u>\$ 5,775,782</u>

The pooled investments of the pension and investment trust funds consist primarily of venture capital, limited partnerships, open-end mutual funds and real estate. The fair value of pension and investment trust investments is determined by quoted market values, where applicable. Investments in real estate pooled funds are determined based on appraised values. Venture capital and other limited partnership values are determined based on discounted market values where market quotes are available, and by various procedures for investments in non-traded partnerships where quotes are not available. In 1994, the Board of Pension Trustees of the DPERS adopted a formal written policy on the use of derivatives. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are spelled out in manager contracts and are monitored on an ongoing basis. The Board believes that it is unlikely that any of the derivatives used by managers of the DPERS could have a material adverse effect on the financial condition of the DPERS. Managers authorized to use derivatives do so to reduce foreign exchange risk and minimize transaction costs. Managers may also use derivatives as part of an overall strategy to enhance returns. The following lists principal categories of derivatives and their uses during the year:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies
Exchange traded equity futures	Reduce transaction costs; hedge equity market risk; enhance return
Exchange traded fixed income futures	Reduce transaction costs; control portfolio duration; enhance return
Exchange traded options	Enhance return; reduce transaction costs
Asset backed securities	Enhance return

Repurchase Agreements

For repurchase agreements, the underlying securities consist of U.S. Government or government agency securities, certificates of deposit, commercial paper or bankers' acceptances. All repurchase transactions are governed by written repurchase agreements. Statutes require that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement. Due to significantly higher cash flows at certain times during the fiscal year, the State's investment in overnight repurchase agreements for which the underlying securities were held by the dealer (Category 3) fluctuates.

Reverse Repurchase Agreements

The Cash Management Policy Board permits the State to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. At June 30, 2002, the State had no reverse repurchase agreements.

COMPONENT UNITS**Delaware State Housing Authority**

The Delaware State Housing Authority invests its funds and those held by its trustees in accordance with the various applicable bond resolutions, Federal laws and regulations, and is under the oversight of the State's Cash Management Policy Board. DSHA investments categorized as to risk had a fair value of \$206,838,155 at June 30, 2002. Of this amount, \$39,644,716 was uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Authority's name (Category 3). The remaining \$167,193,439 represents pooled investments where the Authority does not own specific securities. This amount includes funds of \$45,157,760 specifically identified for the Authority in the State of Delaware's Investment Pool. These pooled investments are categorized by risk within the investments of the primary government.

Diamond State Port Corporation

The carrying and fair value of investments of the DSPC at June 30, 2002 amounted to \$3,997,593 and \$4,064,140 respectively. The investments, consisting of various equity and mutual funds, are classified for credit risk as uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the DSPC's name (Category 3).

Delaware State University

Investments of the University totaled \$12,393,511, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities.

NOTE 4. RECEIVABLES

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available as of June 30, 2002. Taxes receivable which will not be available within 60 days of year end are recorded as deferred revenue. All taxes receivable are recorded net of an allowance for doubtful accounts. Uncollectability primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State of Delaware levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by

the Counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements.

Receivables as of year-end for the State's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Federal Funds	Local School District Funds	Unemployment	Lottery	DeIDOT	Total Receivables
	(Expressed in Thousands)						
Receivables:							
Taxes	\$ 215,946		\$ 7,254	\$ 14,246			\$ 237,446
Interest		\$ 1,519				\$ 1,017	2,536
Accounts	106,089		690	4,847	\$ 13,523	3,393	128,542
Loans and Notes	66,074						66,074
Intergovernmental		67,985				8,129	76,114
Total receivables	388,109	69,504	7,944	19,093	13,523	12,539	510,712
Allowance for doubtful accounts	(195,120)		(18)		(656)	(151)	(195,945)
Total receivable (net)	<u>\$ 192,989</u>	<u>\$ 69,504</u>	<u>\$ 7,926</u>	<u>\$ 19,093</u>	<u>\$ 12,867</u>	<u>\$ 12,388</u>	<u>\$ 314,767</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 101,181</u>	<u>\$ 9,629</u>	<u>\$ 6,732</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 117,542</u>

Receivables as of year-end for the State's component Units, including the applicable allowances for uncollectible accounts, are shown below.

	COMPONENT UNITS					Total Receivables
	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University		
	(Expressed in Thousands)					
Receivables:						
Interest	\$ 1,782		\$ 925		\$ 2,707	
Accounts	68,455	\$ 3,172	243	\$ 16,798	88,668	
Loans and Notes	380,573		7,385	443	388,401	
Intergovernmental	751				751	
Total receivables	451,561	3,172	8,553	17,241	480,527	
Less: Allowance for doubtful accounts	(1,284)	(291)	(1,908)	(1,394)	(4,877)	
Total receivables (net)	<u>\$ 450,277</u>	<u>\$ 2,881</u>	<u>\$ 6,645</u>	<u>\$ 15,847</u>	<u>\$ 475,650</u>	
Amounts not scheduled for collection during the subsequent year	<u>\$ 608</u>	<u>\$ 141</u>	<u>\$ 170</u>	<u>\$ 214</u>	<u>\$ 1,133</u>	

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with

resources that have been received, but not yet earned. Amounts considered unearned federal grant drawdowns are reported as intergovernmental payables.

At year end, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
	(Expressed in Thousands)	
Taxes Receivable	\$ 74,248	
Non-tax Receivables	73,390	
Intergovernmental Receivables	9,497	
Intergovernmental Payables		\$ 5,658
Total	<u>\$ 157,135</u>	<u>\$ 5,658</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due From/Due to Other Funds

Receivables reported as "Due From Other Funds" and the related payables reported as "Due To Other Funds" represent amounts owed to State agencies by other agencies within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as Intergovernmental receivables or payables. The composition of Due From/Due To balances as of June 30, 2002 expressed in thousands is as follows.

Receivable Fund	Payable Fund	Amount
General Fund	Federal Fund	\$ 17,607
	Capital Project Fund	95,178
	Delaware State Lottery	<u>2,738</u>
	Total	<u>\$ 115,523</u>

The amounts due from the Federal Fund and Capital Projects Fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the Federal Fund is created by expenditures relating to reimbursement type federal grant revenues. The State Legislation authorizes certain Capital Project expenditures prior to the issuance of bonds. These costs result in negative balance in the State Investment Pool. The negative balance is considered to be a borrowing from the General Fund. The amount due from the Delaware Lottery (reported as an internal balance on the Statement of Net Assets), represents profits required by law to be transferred to the General Fund.

Transfers In From /Out To Other Funds

Transfers in and transfers out to/from other funds in the Statement of Revenues, Expenditures and Changes in Fund Balance, the Statement of Revenues, Expenses and Changes in Fund Net Assets, Proprietary Funds and Payment from the Primary Government in the Statement of Activities-Component Units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Delaware State Lottery as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2002 is presented below (expressed in thousands):

	Transfers In	Transfers Out
Governmental Fund Types		
General Fund	\$ 333,566	\$ 30,020
Federal Fund		8
Local School Fund	4,329	18,431
Capital Projects Fund	30	23,376
Proprietary Fund Types		
Lottery		294,406
DELDOT Fund	29,990	1,674
	<hr/>	<hr/>
Total All Funds	\$ 367,915	\$ 367,915
	<hr/> <hr/>	<hr/> <hr/>

NOTE 6. GENERAL OBLIGATION BONDS

General Obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, correction and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State of Delaware; that is, the bonds are secured by the pledge of the full faith and credit of the State. General Obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the General fund. Accordingly, the State of Delaware has generally issued 10 and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have

call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at a redemption price not to exceed 101% to 103% of par value.

On August 1, 2001, the State issued \$155.2 million of general obligation bonds. These serial bonds mature between August 1, 2002 and August 1, 2021, and bear average annual interest rates of 4.1%. A portion of these proceeds, amounting to \$20.8 million, was used to advance refund \$20.1 million of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refundings resulted in a debt service cash savings over the next 17 years of \$1,080,000. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On December 28, 2001, the State issued \$649,000 in General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that carry a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest tax credit of 6.49%. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2011.

Bonds issued and outstanding totaled \$709,958,000 at June 30, 2002. The State is authorized to issue an additional \$246.9 million of general obligation bonds at June 30, 2002. Interest rates and maturities of the outstanding General Obligation Bonds are detailed on the following page.

General Obligation Bonds

Description	Interest Rates	Maturity	Balance
		Date	Outstanding
		(Fiscal Year)	June 30, 2002
(Expressed in Thousands)			
GO 1997 A	5.0%	2017	\$ 50,000
GO Refunding 1993 B	2.5% - 5.0%	2012	35,145
GO Refunding 1992 C	2.75% - 5.75%	2010	20,515
GO 1992 B	4.7% - 6.1%	2013	11,426
GO + Refunding 1998A	4.5% - 4.75%	2018	101,205
GO 1991 A	4.625% - 6.375%	2008	5,975
GO 1999 A	4.0% - 4.625%	2019	85,250
GO 1994 A	4.6% - 5.2%	2014	31,440
GO 1993 A	4.25% - 5.0%	2013	19,000
GO March 1992	5.6% - 6.25%	2012	2,300
GO 2000 A	5.0% - 5.5%	2020	85,000
GO 1996 A	4.5% - 5.125%	2016	55,000
GO + Refunding 2001A	4.0% - 4.75%	2021	155,178
QZAB 2001B	0%	2011	649
GO 1997 B	5.0%	2017	40,625
GO 1994 B	5.25% - 6.125%	2015	<u>11,250</u>
			\$ 709,958

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and therefore has been removed as a liability from the Government-wide financial statements. As of June 30, 2002, a total of \$49.8 million of defeased bonds were outstanding.

The table presented on the following page sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2002.

TOTAL GENERAL OBLIGATION BONDS

(Expressed in Thousands)

Fiscal Year Ending June 30	PRINCIPAL	INTEREST	Total
2003	\$ 83,881	\$ 33,228	\$ 117,109
2004	77,132	29,269	106,401
2005	74,640	25,667	100,307
2006	69,286	22,200	91,486
2007	64,349	18,880	83,229
2008-2012	215,916	58,116	274,032
2013-2017	92,379	21,993	114,372
2018-2022	32,375	3,314	35,689
Totals	<u>\$ 709,958</u>	<u>\$ 212,667</u>	<u>\$ 922,625</u>

Changes in general obligation bonded debt during the year ended June 30, 2002, are summarized in Note 11.

NOTE 7. REVENUE BONDS

REVENUE BONDS

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

PRIMARY GOVERNMENT

Delaware Economic Development Office

The Office has \$350,000 of industrial development revenue bonds outstanding at June 30, 2002, which are supported by the full faith and credit of the State. Future debt service requirements are dependent on lease rentals or other payments from the users of the projects financed with the separate bond proceeds. The State is liable for payment of principal and interest to the extent that the other sources default on payments.

DeIDOT Fund

Delaware Transportation Authority

The Delaware Transportation Authority (the Authority) is subject to oversight by the Department of Transportation and is included in the DeIDOT fund. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system

for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

Bonds outstanding at June 30, 2002 amounted to \$675,735,000. The Delaware Transportation Authority had a total of \$350,478,707 in authorized but unissued bonds at June 30, 2002. Bonds outstanding at June 30, 2002 are detailed below.

Delaware Transportation Authority Revenue Bonds

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2002 (Expressed in Thousands)
Transportation System Senior Revenue Bonds - Series			
2002	4.0% - 5.0%	2008	\$ 43,015
2001	3.5% - 5.25%	2021	85,000
1988	7.4% - 7.5%	2002	3,895
1991	5.5% - 6.5%	2016	11,850
1992	5.1% - 5.8%	2012	5,505
1993	4.6% - 5.5%	2010	64,900
1993 A	4.6% - 5.25%	2014	98,695
1994	5.4% - 7.0%	2014	19,915
1997	5.0% - 6.0%	2017	110,010
1998	4.0% - 5.5%	2016	59,760
2000	5.0% - 6.0%	2020	81,910
Transportation System Junior Revenue Bonds - Series			
2002	4.375% - 5.0%	2009	48,120
1988	7.3% - 7.5%	2002	8,100
1992	5.1% - 5.80%	2009	1,000
1993	4.60% - 5.0%	2005	29,880
1997	4.5%	2004	4,180
Totals			675,735
Less: Current portion			41,490
			<u>\$ 634,245</u>

The Authority has defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore removed as a liability of the Authority. As of June 30, 2002, a total of \$233,780,000 of defeased bonds are outstanding.

Future debt service requirements for the Authority's outstanding bonds are shown in the table below.

Delaware Transportation Authority Revenue Bonds

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 41,490	\$ 33,344	\$ 74,834
2004	45,060	31,540	76,600
2005	46,800	29,217	76,017
2006	47,805	26,780	74,585
2007	49,240	24,271	73,511
2008-2012	232,365	82,087	314,452
2013-2017	153,045	34,722	187,767
2018-2022	59,930	6,815	66,745
Totals	<u>\$ 675,735</u>	<u>\$ 268,776</u>	<u>\$ 944,511</u>

Department of Natural Resources and Environmental Control

On July 17, 1998, the State used available funds to defease the total remaining balances of the 1991 and 1993 Land and Water Conservation Trust Fund Revenue Bonds. Funds were deposited in an escrow account to provide for future debt service requirements of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Government-wide financial statements. As of June 30, 2002, a total of \$1,505,000 defeased bonds are outstanding.

COMPONENT UNITS

Delaware State Housing Authority

The Authority is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of the Authority. Bonds issued by the Authority are not secured by the full faith, credit and taxing power of the State.

The Delaware State Housing Authority has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for-profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the Authority and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.25% to 10.375% with maturities through July 1, 2034.

On November 13, 2001, the Authority issued \$28,985,000 of Single Family Mortgage Revenue Bonds 2001 Series A of which \$8,985,00 was for a current refunding of Residential Mortgage Revenue Bonds 1989 Series A. The refunding was undertaken to reduce the total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$201,163. This amount is being netted against the carrying value of the new debt and amortized over the life of the refunded bonds, which is shorter than the life of the new bonds. The transaction resulted in an economic gain of \$2,763,241 and a reduction of \$4,659,145 in future debt service payments.

On December 3, 2001, the Authority issued \$49,305,000 of Multi-Family Mortgage Revenue Bonds 2001 Series A of which \$49,305,000 was for a current refunding of 1977 Series A (partial refunding), 1979 Series A and 1987 Series A, as well as the Multi-Family Mortgage Refunding Bonds 1991 Series A, 1992 Series A and 1992 Series B. The refunding was undertaken to reduce the total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$1,260,702. This amount is being netted against the carrying value of the new debt and amortized over the life of the refunded bonds, which is shorter than the life of the new bonds. The transaction resulted in an economic gain of \$7,381,517 and a reduction of \$12,133,260 in future debt service payments.

On February 26, the Authority issued \$23,064,841 of Single Family Mortgage Revenue Bonds 2002 Series A. On June 26, 2002, the Authority issued \$30,600,000 of Single Family Mortgage Revenue Bonds 2002 Series B. Proceeds of both sales were used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders.

Interest rates for outstanding bonds payable for the Authority range from 2.25% to 10.375%, with maturities from 2011 to 2034. Outstanding bonds at June 30, 2002 amounted to \$424,769,213. Future debt service requirements for the Authority's bonds are shown on the following page.

Delaware State Housing Authority Revenue Bonds

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 11,210	\$ 23,143	\$ 34,353
2004	12,839	22,173	35,012
2005	13,126	21,611	34,737
2006	13,483	21,004	34,487
2007	13,946	20,347	34,293
2008-2012	77,097	90,385	167,482
2013-2017	71,965	68,508	140,473
2018-2022	83,499	52,895	136,394
2023-2027	65,731	36,133	101,864
2028-2032	52,671	13,572	66,243
2033-2037	9,202	225	9,427
Total	<u>\$ 424,769</u>	<u>\$ 369,996</u>	<u>\$ 794,765</u>

Riverfront Development Corporation

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury Bills plus .30%. The rate as of June 30, 2002 was 5.125%. The bonds mature December 1, 2017. The bonds are subject to mandatory redemption requirements as shown on the below.

Riverfront Development Corporation Revenue Bonds

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 180	\$ 280	\$ 460
2004	180	270	450
2005	200	261	461
2006	240	249	489
2007	245	237	482
2008-2012	1,640	957	2,597
2013-2017	2,454	429	2,974
2018	315	8	323
Total	<u>\$ 5,545</u>	<u>\$ 2,691</u>	<u>\$ 8,236</u>

Delaware State University

In May of 1999, the University issued Revenue Refunding Bonds of \$15,865,000 (par value) to advance refund the 1992 and 1996 series bonds with a total par value of \$14,625,000. The Bond Trust Indenture requires the University to maintain a Debt Service Reserve Fund equal to the maximum annual debt service on all bonds

outstanding under the Indenture. In September 1997, the University amended the indenture to provide for the deposit of a surety bond in the Debt Reserve Fund replacing the investment requirement. This bond was obtained from MBIA Insurance Corporation in the amount of \$1,580,000. The bond ratings were not changed as a result of this substitution. In addition, the University has pledged for payment of debt, all net operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

Interest rates range from 3.55% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown on the following page.

Delaware State University Revenue Refunding Bonds

(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 840	585	\$ 1,425
2004	870	554	1,424
2005	905	521	1,426
2006	940	485	1,425
2007	690	453	1,143
2008-2012	3,880	2,086	5,966
2013-2017	4,760	897	5,657
2018	<u>1,095</u>	<u>29</u>	<u>1,124</u>
Total	\$ 13,980	<u>\$ 5,610</u>	<u>\$ 19,590</u>
Less: Unamortized Bond Discount	<u>(73)</u>		
	<u>\$ 13,907</u>		

The University has defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore removed as a liability of the University. As of June 30, 2002 a total of \$11,986,000 of defeased bonds are outstanding.

NOTE 8. LOANS AND NOTES PAYABLE

Delaware State Housing authority (DSHA)

Notes payable of the DSHA include \$2,553,373 of Financing Adjustment Factor (FAF) notes payable and a \$539,400 note payable to the Housing Development

Fund (HDF). FAF Notes payable in the Enterprise fund of the DSHA represent obligations to the State. The State issued General Obligation bonds on behalf of the DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled the DSHA to receive the savings from the FAF issues in advance. Debt service requirements for these notes are shown on the following page.

Delaware State Housing Authority
Financing Adjustment Factor (FAF) Notes
 (Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 291	\$ 127	\$ 418
2004	301	112	413
2005	270	98	368
2006	285	84	369
2007	298	69	367
2008-2012	1,004	371	1,375
2013-2017	104	5	109
Total	<u>\$ 2,553</u>	<u>\$ 866</u>	<u>\$ 3,419</u>

The Public Housing Program was the recipient of a \$539,400 program loan through the HDF to acquire public housing. This non-interest bearing loan was a matching fund loan for the Public Housing Program and will be repaid from the sale of these units upon termination of the program. This renewable note payable to the HDF matures in 2017. No payments of principal or interest are required prior to maturity.

The Authority acquired a building for general administrative purposes using the proceeds from a mortgage note issued by Wilmington Trust Corporation. The note is payable through January 2007 at an interest of 4.75%. The total principal balance at June 30, 2002 is \$372,662. Annual debt service requirements on this note are as follows:

Delaware State Housing Authority
Wilmington Trust Corporation Note
 (Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 16	\$ 17	\$ 33
2004	18	16	34
2005	19	16	35
2006	20	15	35
2007	300	8	308
Total	<u>\$ 373</u>	<u>\$ 72</u>	<u>\$ 445</u>

Diamond State Port Corporation (DSPC)

Loan and Notes payable of the DSPC at June 30, 2002 are as follows.

(Expressed in Thousands)

City of Wilmington:	
Port Debt Service Notes	\$ 31,480
Transportation Trust Fund Loan	<u>27,500</u>
Total	<u>\$ 58,980</u>

Transportation Trust Fund Loan

On November 1, 2001, the DSPC entered into a loan agreement with the Department of Transportation of the State of Delaware (DOT). The DSPC borrowed \$27,500,000 (\$25,500,000 on February 2, 2002 and \$2,000,000 on May 2, 2002). The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note; and, at a discount, the City of Wilmington Deferred Payment Note. In addition, the loan provided \$8,648,136 to establish a fund to be invested. This fund is to be used to pay portions of debt service as they become due, and is restricted for this purpose.

The rate of interest on the loan is 4.6%. The first payment on the loan is due January 1, 2003 and is for interest only. Thereafter, payments of principal and interest are due semi-annually over a twenty-year period. Interest expense charged to operations in 2002 was \$424,145.

Transportation Trust Fund Loan

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ - 0 -	\$ 1,065	\$ 1,065
2004	863	1,255	2,118
2005	903	1,215	2,118
2006	945	1,173	2,118
2007	989	1,129	2,118
2008-2012	5,678	4,911	10,589
2013-2017	7,128	3,461	10,589
2018-2022	8,948	1,641	10,589
After 2022	<u>2,046</u>	<u>72</u>	<u>2,118</u>
Total	<u>\$ 27,500</u>	<u>\$ 15,922</u>	<u>\$ 43,422</u>

City of Wilmington

In consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington, Delaware (the City), the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of \$39,900,000 and Port Debt Service Notes with original face amounts of \$51,080,622. These notes are secured by a first lien on substantially all of the DSPC's assets.

Port Deferred Payment Note

The Port Deferred Payment Note was recorded at the present value of the future payments as of September 1, 1995, the date of acquisition. Interest was imputed based on an estimated borrowing rate of approximately 5.5%. Interest for 2002 was \$163,338.

The DSPC received funds from the State of Delaware's 2000 Bond Bill in the amount of \$7,000,000 which was used, along with \$95,843 from the DSPC's operations, to pay off a portion of the Deferred Payment Note. The prepayment to the City included amounts accrued for 1997 through 2001 and amounts payable for 2001 through 2005.

On February 20, 2002 and May 2, 2002 the remaining amounts due, \$11,608,231 in total, were also prepaid to the City using \$8,000,000 of the proceeds of the Transportation Trust Fund Loan. The difference between these two amounts, less related legal costs, \$3,569,624, was effectively forgiven by the City. In exchange, the DSPC agreed not to pursue compensation for future potential environmental liabilities. The transaction resulted in a gain of \$3,569,642, reported as a special item.

Port Debt Service Notes

These notes obligate the DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.7% to advance refund \$21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086 respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$261,619 for the year ended June 30, 2002, it reduces the Corporation's debt service payments by \$281,293 over the next eleven years resulting in an economic gain. The deferred loss on the refunding is accreted

over the eleven years of the life of the debt. The deferred loss balance as of June 30, 2002 was \$223,163.

The future principal and interest payments on Port Debt Service Notes are as follows:

Port Debt Service Note

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 3,326	\$ 1,461	\$ 4,787
2004	3,554	1,313	4,867
2005	3,300	1,155	4,455
2006	2,980	1,007	3,987
2007	3,117	866	3,983
2008-2012	10,561	2,444	13,005
2013-2017	3,103	899	4,002
2018-2022	1,431	269	1,700
After 2022	331	8	339
Subtotal	31,703	9,422	41,125
Deferred Loss on Refunding	(223)	- 0 -	(223)
Total	<u>\$ 31,480</u>	<u>\$ 9,422</u>	<u>\$ 40,902</u>

Delaware River and Bay Authority Obligation

The DSPC entered into a "lease agreement" with the Delaware River and Bay Authority (DRBA) whereby the DSPC agreed to lease to the DRBA, certain parcels of land, together with a building referred to as Warehouse A, located at the Port, for an initial term of 15 years with successive one year renewal terms at the option of the DRBA. The rent for the entire 15-year initial term of the lease is \$7,000,000, which was paid to the DSPC. The rent for the one-year renewal terms is \$1 per year. It is the intention of the DRBA to sublet the leased premises, rather than being an occupant.

Simultaneously, with the execution of the lease agreement, the DSPC and the DRBA entered into an "operating agreement" that defines the responsibilities of the DSPC and the DRBA pursuant to the operations of the leased premises during the lease term. As part of this agreement, the DSPC has agreed to make certain "guaranteed payments" to the DRBA at the end of each month, for a period of 15 years. The total of the payments is \$7,000,000 plus interest calculated at 4.00% for the first five years, 7.20% for the second five years, and 8.72% for the third five years.

This transaction was accounted for as a loan from the DRBA secured by the land and warehouse identified in the lease agreement. On February 20, 2002, the outstanding balance of this obligation was prepaid to the DRBA using proceeds from the Transportation Trust Fund Loan.

Wilmington Trust Company Note

On April 9, 1999, the Corporation entered into a loan agreement with Wilmington Trust Company (WTC) for an amount up to \$2,320,000 for the construction and permanent financing of a new administrative facility. On February 20, 2002, the outstanding balance of this loan was prepaid using proceeds from the Transportation Trust Fund Loan.

Riverfront Development Corporation

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total \$15,607,062 at June 30, 2002. Interest rates for the mortgages vary between 4.34% and 8.5% and mature between January 2003 and May 2004. Estimated future annual debt service requirements are as follows:

(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 5,700	\$ 577	\$ 6,277
2004	9,970	224	10,194
Total	<u>\$ 15,670</u>	<u>\$ 801</u>	<u>\$ 16,471</u>

NOTE 9. LEASE COMMITMENTS

PRIMARY GOVERNMENT

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating \$150.9 million, of which \$121.4 million relates to property leases and \$29.5 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately \$23.9 million were made by the General Assembly to meet the rental payments in fiscal 2002, of which \$14.6 million was for office space and \$9.3 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include \$4.6 million for computers and data processing equipment for the Executive Department and \$3.0 million for fleet vehicles with the Department of Administrative Services. Significant annual real estate rentals include \$3.7 million for leases for Health and Social Services facilities,

\$2.3 million for the Department of Labor and \$1.7 million for office space of the Department of Services for Children, Youth and Their Families.

Future minimum lease commitments for operating leases as of June 30, 2002 are shown in the following table.

State of Delaware Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2003	\$ 24,606
2004	22,121
2005	18,253
2006	13,426
2007	11,150
2008-2012	34,821
2013-2017	6,286
2018-2022	4,691
Thereafter	15,569
	\$ 150,923

COMPONENT UNIT

Diamond State Port Corporation (DSPC)

The DSPC leases high-speed freezer doors under capital leases expiring in 2006. Depreciation of assets under capital leases is included in depreciation expense. The cost of assets under capital leases was \$142,389 at June 30, 2002. Accumulated depreciation at June 30, 2002 amounted to \$9,493. Future minimum capital lease commitments as of June 30, 2002 amounted to \$143,840.

The DSPC leases forty forklifts and a number of other vehicles under five year operating leases expiring between 2005 and 2007. Minimum monthly rental payments for 2002 were \$22,562. The following table details future obligations.

Year Ending June 30	Operating Leases
2003	\$ 271
2004	271
2005	264
2006	263
2007	109
	\$ 1,178

The DSPC also leases various equipment on a short-term basis for its operations. Rental expense was \$601,980 for 2002.

Riverfront Development Corporation (RDC)

The RDC has entered into a lease for real property that houses the First USA Riverfront Arts Center. This lease is for a term of 15 years, expiring May 31, 2013. Minimum annual rent of \$763,364 is based on the lessor's debt service on a \$6 million loan, amortized over fifteen years, at 7.4% interest plus \$100,000. Rent expense was \$748,192 for the years ended June 30, 2002. As additional rent, RDC is required to pay a percentage of the gross revenue generated from the facility in excess of the base rent plus operating costs. There was no additional rent due for the year ended June 30, 2002. Total remaining annual rent payments for the lease are \$8,333,388 at June 30, 2002.

Delaware State University

The University has entered into capital leases for certain telephone equipment. The economic substance of the leases is that the University is financing the acquisition of the assets through the leases, and accordingly, they are recorded in the University's assets and liabilities. Future minimum payments under capital leases and the asset purchase agreement are as follows:

(Expressed in Thousands)	
Year Ending June 30	Capital Leases
2003	\$ 177
2004	179
2005	179
2006	56
Total Future Payments	<u>591</u>
Less: Interest	<u>45</u>
Present Value of Future Payments	<u>\$ 546</u>

The University has also entered into various non-cancelable operating leases for copying and residence hall equipment. During the year ended June 30, 2002, related rental expense amounted to \$439,028. At June 30, 2002, future minimum rents due under these leases amount to \$414,245 and \$143,469 for fiscal years 2003 and 2004, respectively.

NOTE 10. OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the Government-wide Financial Statements and in Proprietary Funds. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2002. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. The employee or his estate is paid for unused vacation upon termination of employment.

Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. \$114.9 million has been accrued in long-term obligations for the State's compensated absences liability.

The State has recorded \$28.0 million relating to the accrual of the long-term obligation for escheat (abandoned property). An additional \$19.7 million was recorded as a current portion obligation.

An additional long-term obligation relates to the purchase of the Wilmington Public Building. \$28,077 has been reported as the current portion and the remaining principal balance of \$30,194 is included in long-term debt with the final payment to be made in 2004.

NOTE 11. CHANGES IN LONG-TERM OBLIGATIONS

The following table provides a summary of changes in long-term obligations for the year ended June 30, 2002.

CHANGES IN LONG-TERM OBLIGATIONS					
Primary Government					
(Expressed in Millions)					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
General obligation bonds	\$ 653.7	\$ 155.8	\$ (99.6)	\$ 709.9	\$ 83.9
Revenue bonds	0.5		(0.1)	0.4	0.0
Wilmington Public Bldg.	0.1			0.1	0.0
Claims and Judgments	95.2	384.6	(382.4)	97.4	38.2
Compensated Absences	114.8	0.1		114.9	
Net pension obligation	61.8	27.8	(17.8)	71.8	
Escheat payable	42.9	11.8	(7.0)	47.7	19.7
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities long-term liabilities	<u>\$ 969.0</u>	<u>\$ 580.1</u>	<u>\$ (506.9)</u>	<u>\$ 1,042.2</u>	<u>\$ 141.8</u>
Business-type Activities					
Revenue bonds	634.4	80.9	(39.6)	675.7	41.5
Bond issue premium, net of accumulated amortization		7.5		7.5	
Compensated Absences	11.6	0.3	(0.7)	11.2	3.8
Claims and judgments	22.3	124.4	(107.2)	39.5	30.9
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Business type Activities long-term liabilities	<u>\$ 668.3</u>	<u>\$ 213.1</u>	<u>\$ (147.5)</u>	<u>\$ 733.9</u>	<u>\$ 76.2</u>

Changes in long-term obligations for the Component Units are summarized below.

	Component Units (Expressed in Millions)				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Delaware State Housing Authority					
Notes Payable	\$ 3.4	\$ 0.4	\$ (0.3)	\$ 3.5	\$ 0.3
Revenue bonds	399.8	131.0	(106.0)	424.8	11.2
Compensated Absences	0.6	0.1		0.7	0.0
Total Long Term Obligations	<u>\$ 403.8</u>	<u>\$ 131.5</u>	<u>\$ (106.3)</u>	<u>\$ 429.0</u>	<u>\$ 11.5</u>
Diamond State Port Corporation					
Notes Payable	\$ 56.3	\$	\$ (24.8)	\$ 31.5	\$ 3.3
Loans Payable		27.5		27.5	
Other Non-current	0.1	3.2		3.3	
Total Long Term Obligations	<u>\$ 56.4</u>	<u>\$ 30.7</u>	<u>\$ (24.8)</u>	<u>\$ 62.3</u>	<u>\$ 3.3</u>
Riverfront Development Corporation					
Loans Payable	\$ 0.5	\$	\$ (0.5)	\$ 0.0	\$
Bonds Payable	5.7		(0.2)	5.5	0.2
Long term debt	16.0	0.1	(0.5)	15.6	5.7
Total Long Term Obligations	<u>\$ 22.2</u>	<u>\$ 0.1</u>	<u>\$ (1.2)</u>	<u>\$ 21.1</u>	<u>\$ 5.9</u>
Delaware State University					
Lease Obligations	\$ 0.7	\$	\$ (0.1)	\$ 0.6	\$ 0.2
Revenue bonds	14.7		(0.8)	13.9	0.8
Total Long Term Obligations	<u>\$ 15.4</u>	<u>\$ 0.0</u>	<u>\$ (0.9)</u>	<u>\$ 14.5</u>	<u>\$ 1.0</u>

NOTE 12. NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

The State of Delaware, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2002 for these entities amounted to \$1.9 billion and \$168.4 million, respectively.

NOTE 13. CAPITAL ASSETS**PRIMARY GOVERNMENT**

Capital asset activities for the fiscal year ended June 30, 2002 were as follows:

(Expressed in Thousands)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	\$ 255,683	\$ 9,472		\$ 265,155
Easements	60,210	4,135		64,345
Construction-in-progress	269,165	256,938	\$ (63,984)	462,119
Total capital assets, not being depreciated	585,058	270,545	(63,984)	791,619
Capital assets, being depreciated				
Vehicles	49,675	4,087	(3,540)	50,222
Buildings	961,806	63,984		1,025,790
Equipment	74,845	8,551	(8,565)	74,831
Land Improvements	22,291	11,943		34,234
Total capital assets being depreciated	1,108,617	88,565	(12,105)	1,185,077
Less accumulated depreciation for:				
Vehicles	(31,119)	(4,293)	3,540	(31,872)
Buildings	(479,843)	(20,295)		(500,138)
Equipment	(46,447)	(4,646)	8,565	(42,528)
Land Improvements	(9,898)	(1,177)		(11,075)
Total accumulated depreciation	(567,307)	(30,411)	12,105	(585,613)
Total capital assets, being depreciated, net	541,310	58,154	0	599,464
Governmental activities capital assets, net	\$ 1,126,368	\$ 328,699	\$ (63,984)	\$ 1,391,083

Business-type Activity DeIDOT Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	\$ 9,751	\$ 1,479		\$ 11,230
Infrastructure	3,176,458	25,356		3,201,814
Total capital assets, not being depreciated	3,186,209	26,835		3,213,044
Capital assets, being depreciated				
Buildings	45,418	5,240		50,658
Vehicles and equipment	128,587	19,125	\$ (4,335)	143,377
Total capital assets being depreciated	174,005	24,365	(4,335)	194,035
Less accumulated depreciation for:				
Buildings	(15,493)	(1,745)		(17,238)
Vehicles and equipment	(55,462)	(12,301)	4,018	(63,745)
Total accumulated depreciation	(70,955)	(14,046)	4,018	(80,983)
Total capital assets, being depreciated, net	103,050	10,319	(317)	113,052
Business-type activity capital assets, net	\$ 3,289,259	\$ 37,154	\$ (317)	\$ 3,326,096

Business-type Activities Lottery	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Vehicles and equipment	<u>\$ 1,840</u>	<u>\$ 15</u>		<u>\$ 1,855</u>
Total capital assets being depreciated	<u>1,840</u>	<u>15</u>		<u>1,855</u>
Less accumulated depreciation for:				
Vehicles and equipment	(1,000)	(191)		(1,191)
Total accumulated depreciation	<u>(1,000)</u>	<u>(191)</u>		<u>(1,191)</u>
Total capital assets, being depreciated, net	<u>840</u>	<u>(176)</u>		<u>664</u>
Business-type activity capital assets, net	<u>\$ 840</u>	<u>\$ (176)</u>	<u>\$ 0</u>	<u>\$ 664</u>

Depreciation expense was charged to the following primary government functions as follows:

(Expressed in Thousands)

	Amount
Governmental Activities:	
General Governments	\$ 6,384
Health and Children's Services	1,737
Judicial and Public Safety	7,146
Natural Resources and Environmental Control	1,763
Labor	78
Education	<u>13,303</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 30,411</u>
Business-type Activities:	
Transportation	\$ 14,046
Lottery	<u>191</u>
Total Depreciation Expense- Business-type Activities	<u>\$ 14,237</u>

NOTE 14. RISK MANAGEMENT

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and a portion of property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage

awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The Management of the State estimates that the amount of actual or potential claims against the State as of June 30, 2002, for workers' compensation, automobile accident and health-care claim liabilities is \$97.4 million. The claim liabilities relating to health-care totaling \$38.2 million have been recorded as current liabilities. The liability for workers' compensation and automobile accident liabilities of \$59.2 million have been recorded as long-term obligations. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2002 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2001 and 2002 were as follows:

Claim Liabilities

(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2001	\$ 85,438	\$ 356,926	\$ (347,170)	\$ 95,194
2002	\$ 95,194	\$ 384,570	\$ (382,350)	\$ 97,414

NOTE 15. PENSIONS

PRIMARY GOVERNMENT

State of Delaware Pension Plans

The State Board of Pension Trustees administers the following defined benefit plans of the Delaware Public Employees' Retirement System (DPERS):

- *State Employees' Pension Plan;
- *Special Pension Plan;
- *New State Police Pension Plan;
- *Judiciary Pension Plans (Closed and Revised);
- *County and Municipal Police/Firemen's Pension Plans
(FICA and Non-FICA);

- *County and Municipal Other Employees' Pension Plan;
- *Volunteer Firemen's Pension Plan;
- *Diamond State Port Corporation Pension Plan; and
- *Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending plan provisions.

The individual plans comprising the DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the Plans, with the exception of the Closed Police Pension Plan, are pooled and invested in the common DPERS Master Trust Fund (Master Trust). Each of the Plans has equity in the Master Trust based on funds contributed and earnings allocated. Individual investments in the Master Trust are not specifically identified to the various Plans.

Additionally, the following non-DPERS funds, described below, have been established under the custody of the State Board of Pension Trustees.

- *County and Municipal Police/Firemen's COLA Fund;
- *Post-Retirement Increase Fund; and
- *Delaware Local Government Retirement Investment Pool.

Non-DPERS Fund Descriptions and Contributions

County and Municipal Police and Firemen's COLA Fund

During 1990, the State of Delaware passed legislation, which established a mechanism for funding post-retirement increases granted by employers who participate in the County and Municipal Police and Firemen's Pension Plans. This mechanism allows the State to appropriate funds to a separate County and Municipal Police and Firemen's COLA Fund managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The State and local governments transfer the proceeds of the tax on a per officer basis. The portion of the tax payable relating to the State Police is re-directed into the COLA Fund. When a participating employer grants a post-retirement increase, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

Post-Retirement Increase Fund (PRI)

During 1993, the State of Delaware passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to employees retired under the State Employees' Plan, the New State Police Plan and the Judiciary Plans (Closed and Revised) beginning with Fiscal 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate Post-Retirement Increase Fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this Post-Retirement Increase Fund on a monthly basis based on a 5-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed.

Investment Trust Fund

In June 1996, the State of Delaware passed legislation, which established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board of Pension Trustees to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. There were two participating entities in the DELRIP as of June 30, 2002, which comprises the pool in its entirety.

The DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the SEC. The System has not provided or obtained any legal binding guarantees during the year to support the value of shares. The fair value of the portion in the pool is the same as the value of the Master Trust shares.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

Plan Membership, Benefit and Contribution Provisions

A description of the individual plans including eligibility provisions, types of benefits and contribution requirements are set forth in general terms below and on the following pages. Detailed information regarding these plans is available in the Delaware Code and in the Rules and Regulations of the Board of Pension Trustees.

State Employees' Pension Plan

Plan Description and Eligibility: The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997 plus final average compensation multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (5) years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have five (5) years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least five (5) years of credited service, eligible survivor receives 50% (or 75% with 3% reduction of benefit) of the benefit the employee would have received at age 62.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee - 3% of earnings in excess of \$6,000.

Death Benefit: \$7,000 per member.

Special Pension Plan

Plan Description and Eligibility: The Special Pension Plan is a cost sharing multiple employer defined benefit plan that covers benefits granted to certain retirees or groups of retirees through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Not applicable.

Retirement: Not applicable.

Disability Benefits: Not applicable.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

Death Benefit: \$7,000 per member.

New State Police Pension Plan

Plan Description and Eligibility: The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final monthly average compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: Ten (10) years of credited service.

Retirement: Age 62 with ten (10) years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits: Duty - Total Disability - 75% of compensation plus 10% for each dependent not to exceed 25% for all dependents. Partial Disability - calculated the same as Service Benefits subject to minimum 50% of final average. Ordinary –same as Benefits.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of compensation.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee - 7% of compensation.

Death Benefit: \$7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility: The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan.

Assets of one Plan can be used to satisfy the liabilities of the other Plan.

Service Benefits:

Closed – Three percent (3%) of average annual compensation multiplied by years of credited service, subject to minimum and maximum limitations.

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.

For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of credited service.

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited service.

Disability Benefits: Same as Service Benefits

Survivor Benefits:

Closed - If employee is receiving a pension, then eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, then eligible survivor receives 1/2 of pension (2/3 with 3% reduction); if employee is active, eligible survivor receives 2/3 of pension the employee would have received at age 62.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee:

- ♦ Closed - \$500 per year for the first 25 years of service.
- ♦ Revised - 3% of earnings that exceed \$6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Death Benefit: Not applicable.

County and Municipal Police/Firemen's Pension Plans (FICA & Non-FICA)

Plan Description and Eligibility: County and Municipal Police/Firemen's Pension Plan, both FICA and Non-FICA, are cost-sharing multiple employer defined benefit plans that cover police officers/ firemen employed by a county or municipality of the State which have become part of the Plan.

Service Benefits: 1/40th of final average monthly compensation multiplied by years of credited service, subject to limitations. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: Ten (10) years of credited service.

Retirement: Age 62 with ten (10) years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

Duty - Total Disability - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents; Partial Disability - calculated the same as Service benefits.

Ordinary - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee - FICA covered - 5% of compensation.

Non-FICA covered - 7% of compensation.

Death Benefit: Not applicable.

County and Municipal Other Employees' Pension Plan

Plan Description and Eligibility: County and Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees other than police officers and fire fighters of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of highest five years of compensation.

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (5) years of credited service, age 60 with 15 years of credited service, or 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have five (5) years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least five (5) years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee - 3% of earnings in excess of \$6,000, plus 2% of earnings that exceed the Social Security Wage Base.

Death Benefit: Not applicable.

Volunteer Firemen's Pension Plan

Plan Description and Eligibility: The Volunteer Firemen's Pension Plan is a cost-sharing multiple employer defined benefit plan which covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State of Delaware.

Service Benefits: \$5 multiplied by years of credited service (not to exceed 25 years) per month.

Vesting: Ten (10) years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

- ♦ Employer - determined by Board of Pension Trustees.
- ♦ Volunteer Member - \$60 per member per year.

Death Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility: The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan that covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (not to exceed 30 years). For this plan, final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the last ten years of employment.

Vesting: Five (5) years of credited service.

Retirement: Age 65 with five (5) years of credited service, or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have 15 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 15 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

- ♦ Employer - determined by Board of Pension Trustees.
- ♦ Employee - 2% of compensation.

Death Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility: The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Service Benefits: 50% of monthly salary.

Vesting / Retirement: 20 years of credited service or age 55.

Disability Benefits: Duty - 75% of salary. Ordinary - 50% of salary.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension, eligible survivor receives 50% of pension.

Contributions:

Employer - The Closed State Police Plan is funded on a pay-as-you-go basis.

Employee - 5% of salary with 20 years or less of credited service; 2% of salary with over 20 years credited service.

Death Benefit: \$7,000 per member.

Historical Trend Information

Historical trend information for the current year and the preceding five years designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay benefits when due is presented in the separately issued financial report of the DPERS.

Pension Investments

As of June 30, 2002, the following managers have investments at fair value in excess of 5% of the DPERS net assets held in trust for pension benefits:

	Fair Value (Expressed in Thousands)
Mellon Capital Asset Allocation Fund	\$ 1,071,657
Mellon Capital Global Asset Allocation Fund	663,618
Lincoln Capital - Fixed	345,010
T. Rowe Price 1-3 Year Bonds	<u>252,342</u>
Total	<u>\$ 2,332,627</u>

Employer Contributions

The table on the following page provides an analysis of Employer Contributions for the current year and the preceding two years. Totals for State Employees', New State Police and Judiciary plans do not include Post-Retirement Increase Fund contributions. Employer contributions of all Plans administered by the System are actuarially determined, with the exception of the Closed State Police Plan, which remains pay-as-you-go. The table presents the annual required contributions expressed in dollars and as a percentage of amount actually contributed.

Schedule of Employer Contributions

(Expressed in Thousands)

Plan	Fiscal Year Ended	Annual Required Contributions	Percentage Contributed
State Employees' *	6/30/02	\$18,148	100.0%
	6/30/01	20,542	100.0%
	6/30/00	43,433	100.0%
Special	6/30/02	- 0 -	N/A
	6/30/01	- 0 -	N/A
	6/30/00	- 0 -	N/A
Closed State Police	6/30/02	\$27,831	64.0%
	6/30/01	27,709	62.0%
	6/30/00	28,208	57.5%
New State Police *	6/30/02	\$ 2,476	100.0%
	6/30/01	2,480	100.0%
	6/30/00	2,585	100.0%
Judiciary *	6/30/02	\$ 1,399	100.0%
	6/30/01	1,333	100.0%
	6/30/00	1,666	100.0%
Diamond State Port Corporation	6/30/02	\$ 341	100.0%
	6/30/01	386	100.0%
	6/30/00	389	100.0%
County and Municipal Police/ Firemen's	6/30/02	\$ 2,779	100.0%
	6/30/01	2,664	100.0%
	6/30/00	2,771	100.0%
County and Municipal Other Employees	6/30/02	\$ 92	100.0%
	6/30/01	165	100.0%
	6/30/00	352	100.0%
Volunteer Firemen's	6/30/02	\$ 586	100.0%
	6/30/01	618	100.0%
	6/30/00	645	100.0%

* Totals do not include Post-Retirement Increase Fund Contributions.

Annual Pension Cost, Actuarial Methods and Assumptions

The table on the following page provides information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2002.

Annual Pension Cost, Actuarial Methods and Assumptions

(Expressed in Thousands)

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	\$ 18,148	N/A	\$ 27,831	\$ 2,476	\$ 1,399
Actuarial Valuation Date	6/30/02	6/30/02	6/30/02	6/30/02	6/30/02
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan	N/A	Level Percent Closed	Level Closed	Level Closed
Remaining Amortization Period	13.95 years	N/A	34 years	18 years	19 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment rate of return	8.50%	8.50%	8.50%	8.50%	8.50%
Projected Salary Increases*	6.00%-9.89%	N/A	7.00%	7.00%	5.50%
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Based on CPI	Ad Hoc	Ad Hoc

Plan	Diamond State Port Corporation	County & Municipal Police & Fireman's	County & Municipal Other Employees	Volunteer Firemen's
Annual Pension Cost	\$ 341	\$ 2,779	\$ 92	\$ 586
Actuarial Valuation Date	6/30/01	6/30/01	6/30/01	6/30/01
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	20 years	10 years	10 years	25 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	8.50%	8.50%	8.50%	8.50%
Projected Salary Increases*	5.00%	7.00%	7.00%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

- Projected Salary Increases include an inflation component of 5% for all Plans.

Funding Status and Progress

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

FUNDING STATUS AND PROGRESS

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered Payroll (3) / (5)
State Employees'	6/30/02	\$ 4,956,156	\$ 4,521,732	\$ (434,424)	109.6%	\$ 1,351,112	(32.2%)
	6/30/01	4,759,031	4,232,244	(526,787)	112.4%	1,270,632	(41.5%)
	6/30/00	4,409,079	3,769,596	(639,483)	117.0%	1,198,626	(53.4%)
Special	6/30/02	\$ 1,832	\$ 742	\$ (1,090)	246.9%	N/A	N/A
	6/30/01	1,866	993	(873)	187.9%	N/A	N/A
	6/30/00	1,834	834	(1,000)	219.9%	N/A	N/A
Closed State	6/30/02	\$ 2,036	\$ 318,687	\$ 316,651	0.6%	\$ 3,105	10,198.1%
Police +	6/30/01	1,749	306,194	304,445	0.6%	3,247	9,376.2%
	6/30/00	1,468	302,795	301,327	0.5%	3,888	7,750.2%
New State	6/30/02	\$ 109,615	\$ 91,928	\$ (17,687)	119.2%	\$ 30,281	(58.4%)
Police	6/30/01	99,138	80,040	(19,098)	123.9%	27,624	(69.1%)
	6/30/00	86,810	68,367	(18,443)	127.0%	25,558	(72.2%)
Judiciary	6/30/02	\$ 29,049	\$ 30,122	\$ 1,073	96.4%	\$ 7,329	14.6%
	6/30/01	27,231	29,635	2,404	91.9%	6,371	37.7%
	6/30/00	24,884	28,108	3,224	88.5%	5,794	55.6%
Diamond State Port	6/30/02	\$ 6,675	\$ 6,617	\$ (58)	100.9%	\$ 9,354	(0.6%)
Corporation	6/30/01	6,044	5,618	(426)	107.6%	8,788	(4.8)%
	6/30/00	5,188	5,222	34	99.3%	7,715	.4%
County and	6/30/02	\$ 35,053	\$ 30,344	\$ (4,709)	115.5%	\$ 21,342	(22.1)%
Municipal Police/	6/30/01	29,389	29,465	76	99.5%	19,605	1.1%
Firemen's (FICA) *	6/30/00	23,496	23,582	86	99.3%	18,011	1.4%
County and *	6/30/02	\$ 3,033	\$ 2,816	\$ (217)	107.7%	\$ 2,545	8.5%
Municipal Other	6/30/01	2,794	2,962	168	94.3%	2,292	7.3%
Employees'	6/30/00	2,410	2,604	194	92.5%	2,004	9.7%
Volunteer	6/30/01	\$ 9,333	\$ 14,940	\$ 5,607	62.5%	Active ++ Members 4,856	Cost per Active Member ++ \$ 1,155
	6/30/00	9,022	13,837	4,815	65.2%	4,769	1,010
	6/30/91	8,412	13,703	5,291	61.4%	4,579	1,155

* In all years, the Actuarial Accrued Liability is reported on the Frozen Initial Liability Cost Method.

+ The Closed State Police Pension Plan is a pay-as-you-go plan.

++ Not expressed in thousands.

NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Plan for the fiscal years ended June 30, 2001, 2000, and 1999 are presented on the following page.

	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2001	Fiscal Year Ended June 30, 2000
	(Expressed in Thousands)		
Annual Required Contribution	\$ 27,831	\$ 27,709	\$ 28,208
Interest on Net Pension Obligation	5,257	4,374	3,357
Adjustment to Annual Required Contribution	<u>(5,371)</u>	<u>(4,448)</u>	<u>(3,399)</u>
Annual Pension Cost	27,717	27,635	28,166
Less Contributions Made	<u>(17,805)</u>	<u>(17,245)</u>	<u>(16,208)</u>
Increase in Net Pension Obligation	9,912	10,390	11,958
Net Pension Obligation, Beginning of Year	<u>61,844</u>	<u>51,454</u>	<u>39,496</u>
Net Pension Obligation, End of Year	<u>\$ 71,756</u>	<u>\$ 61,844</u>	<u>\$ 51,454</u>

Post-Retirement Health Care Benefits

In addition to the pension benefits, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements. The eligibility requirements are the same as those of the pension plans. Currently, 16,870 retirees meet those eligibility requirements. The State reimburses substantially all validated claims for medical and hospitalization costs incurred by pre-Medicare retirees and their dependents. The State also pays a fixed amount of \$273.00 per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as retirees report claims. There are no significant claims that have been incurred but not recorded at June 30, 2002. During the year, General Government expenditures of \$55,766,003 were recognized in the General Fund for post-retirement health care.

Delaware Transportation Authority

Generally, employees of the Delaware Transportation Authority are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, has three single-employer defined benefit plans consisting of the Salaried Office Pension Plan, the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling the Delaware Transit Corporation at 900 Public Safety Boulevard, Dover, DE 19901.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan is as follows (note - the current year information is not available for each plan):

Annual Pension Cost, Actuarial Methods and Assumptions

Plan	Salaried Office Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates: Employer	Actuarially Determined	Actuarially Determined	3.00%
Participants	1.00%	N/A	3.00%
Annual Pension Cost	\$ 42,192	\$ 462,576	\$ 367,109
Contributions Made	\$ 6,610	\$ 485,300	\$ 353,018
Actuarial Valuation Date	7/1/2001	7/1/2000	01/01/2001
Actuarial Cost Method	Projected Unit Credit Cost	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	N/A	25	N/A
Asset Valuation Method	Market	Market	Market
Actuarial Assumptions:			
Investment rate of return	7.00%	7.50%	7.00%
Projected Salary Increases	5.00%	4.50%	4.00%

N/A = Not Applicable

The tables on the following pages provide required supplementary information concerning funding policies and annual pension costs. Annual pension cost is equal to the respective plans required and actual contributions.

Funding Status and Progress

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
Salaried Office Pension Plan	07/01/2001	\$ 2,606,031	\$ 1,075,445	\$ 1,530,586	242.32%	\$ 726,961	211.42%
	07/01/2000	\$ 2,859,157	\$ 1,049,467	\$ 1,809,690	272.44%	\$ 702,499	257.61%
	07/01/1999	\$ 2,498,738	\$ 1,054,050	\$ 1,444,688	237.06%	\$ 685,788	210.66%
DTC Pension Plan	07/01/2000	\$ 3,465,024	\$ 3,840,040	\$ (375,016)	90.23%	\$ 6,868,150	(5.46%)
	07/01/1999	\$ 2,629,378	\$ 3,020,527	\$ (391,149)	87.05%	\$ 6,020,594	(6.50%)
	07/01/1998	\$ 2,112,062	\$ 2,004,489	\$ 107,573	105.37%	\$ 5,390,935	2.00%
Contributory Pension Plan	01/01/2001	\$ 14,294,487	\$ 14,492,717	\$ (198,230)	98.63%	\$ 12,236,975	(1.62%)
	01/01/2000	\$ 14,903,156	\$ 12,521,141	\$ 2,382,015	119.02%	\$ 7,449,948	31.98%
	01/01/1999	\$ 12,918,745	\$ 10,423,919	\$ 2,494,826	123.93%	\$ 7,550,173	33.04%

Three-Year Trend Information

	Year Ending	Minimum Contribution	Maximum Contribution	Annual Pension Cost(APC)	Percentage of APC Contributed
Salaried Office Pension Plan	06/30/2002	\$ - 0 -	\$ - 0 -	\$ 42,182	100.0%
	06/30/2001	\$ - 0 -	\$ - 0 -	\$ 40,950	100.0%
	06/30/2000	\$ - 0 -	\$ - 0 -	\$ 42,440	100.0%
DTC Pension Plan	06/30/2001	\$ 494,329	\$ 462,576	\$ 494,329	100.0%
	06/30/2000	\$ 437,026	\$ 403,907	\$ 437,026	100.0%
	06/30/1999	\$ 309,709	\$ 318,897	\$ 309,709	100.0%
Contributory Pension Plan	12/31/2001	N/A	N/A	\$ 367,109	100.0%
	12/31/2000	N/A	N/A	\$ 224,589	100.0%
	12/31/1999	N/A	N/A	\$ 226,505	100.0%

N/A = Not Applicable

Plan Merger

Effective July 1, 2002, the Salaried Office Pension Plan was merged into the Contributory Pension Plan. The Salaried Office Plan will no longer exist once the merger is complete.

Defined Contribution Pension Plan

All full-time DAST Local #842 Amalgamated Transit Union employees and DAST administrative employees are covered under a contributory 401(a) defined contribution pension plan. Employees may contribute from 1% to 10% of gross salaries, and DTC matches 100% of contributions up to 3% up until December 31, 2000. As of January 1, 2001, the Plan became inactive for the purpose of employer matching. The Plan was dissolved as of January 31, 2002. For the years ended June 30, 2002 and 2001, DTC made contributions of \$ -0- and \$29,616 (0.0% and 0.5% of

covered payroll), respectively. For the years ended June 30, 2002 and 2001, DTC employees made contributions of \$24,219 and \$66,277 (3.9% and 1.2% of covered payroll), respectively. For the years ended June 30, 2002 and 2001, DTC had total covered payroll of \$622,331 and \$5,604,880, and total payroll of \$25,108,254 and \$23,467,385, respectively.

Component Units

Delaware State Housing Authority (DSHA)

All full time or regular part-time State employees of the DSHA are covered under the DPERS plan, including post-retirement health care. Full-time non-state employees of the Public Housing Program and Section 8 Program are covered by the "Housing-Renewal and Local Agency Retirement Plan," a defined contribution plan funded by contributions from both the Authority and the covered employees. Non-State employees of the DSHA are required to contribute 3.5% of their base salary. The DSHA's contribution rate of annual salaries is 4.0% for the period ended June 30, 2002. Total contributions made for the year amounted to \$148,218 of which \$79,052 and \$69,166 was contributed by the DSHA and its employees, respectively.

The Authority provides post-retirement health care benefits in accordance with Authority General Order Number 325, to all non-state employees who retire from the Authority after meeting the eligibility requirements. Currently, six retirees meet those eligibility requirements. The Authority funds these benefits by setting aside 3.44% of semi-monthly gross salaries for non-state employees. The Authority set aside \$106,479 for fiscal 2002. Health care benefits paid during fiscal 2002 totaled \$18,717. The set aside balance, which is held in the State of Delaware investment pool, totaled \$280,967 as of June 30, 2002.

Diamond State Port Corporation and Delaware State University

Generally, employees of these discretely presented component units are covered under DPERS.

NOTE 16. AFFILIATED ORGANIZATIONS

Delaware State Lottery

Multi-State Lottery Association

The Multi-State Lottery Association (MUSL) was established in 1987. Its members include the Delaware State Lottery, an enterprise fund, and twenty-four other state lotteries. MUSL is governed by a Board of Directors, of which each member lottery is represented. The Board's responsibilities are to initiate, promulgate, and administer a multi-state lottery game for the mutual benefit of the member lotteries.

The total amount held as a deposit by the MUSL as of June 30, 2002, was \$1,738,612. This amount, reported by the Lottery as restricted assets and as liabilities payable from restricted assets, represents funds to be paid to the State of Delaware, upon ending the Powerball game, if MUSL is not required to use a portion of the Lottery's reserves held by MUSL.

Complete separate financial statements for MUSL may be obtained at the Multi-State Lottery Association, 1701 48th Street, Suite 210, West Des Moines, IA 50266-6723.

DeIDOT Fund

Delaware Transportation Authority

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium. The consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing and operations of an electronic toll collection customer service center (CSC). The CSC collects tolls and violation fees from motorists in each member jurisdiction and remits to each jurisdiction their share of tolls collected based upon actual road usage.

The CSC will also lease fiber optic transmission lines to the public, which will generate rental income to the CSC. The rental income and violation fees are expected to exceed the costs associated with operating the CSC. In the event that the CSC generates costs in excess of revenues during its ten-year operating term, each member jurisdiction will be obligated to finance their share of this operating deficit under the terms of a True-Up Agreement, which each member jurisdiction has signed.

At June 30, 2002, a True-Up study revealed a probable liability relating to the above True-Up Agreement. While the exact amount of this liability, due in March 2008, is not known, a reasonable estimate based on information currently available is \$6,469,240 for 2002. These amounts have been discounted to their present value based on the average investment rate of the Trust Fund at fiscal year end. The discounted amount of \$5,767,330 appears is included in other liabilities at June 30, 2002. To accumulate funds for future payment of this contingency, the Delaware Transportation Authority is earmarking funds within its operating budget.

Audited statements for the CSC may be obtained from Adesta Transportation Inc., 200 East Park Drive, Suite 600, Mt. Laurel, New Jersey 08054.

NOTE 17. CONTINGENCIES

Various parties have made claims against the State in amounts, which in the aggregate, could be material to the financial statements of the State. The State

recognized \$18.6 million as General Government accrued liabilities in the General Fund for pending litigation settlements for the fiscal year ended June 30, 2002. In the opinion of the Attorney General of the State however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2002 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than \$150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately \$16.5 million at June 30, 2002) in the event that the annuity issuers default on their obligations.

NOTE 18. SUBSEQUENT EVENT

On July 23, 2002, the State issued \$261.6 million of general obligation bonds. These serial bonds mature between August 1, 2002 and August 1, 2021 and bear average interest rates of 3.76%. A portion of the proceeds, amounting to \$133.6 million was used to advance refund \$132.7 million of general obligation bonds. The remaining proceeds of \$128.0 million were used to provide funds for capital improvements to various State facilities.

STATE OF DELAWARE
CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30:
(Expressed in Thousands)

	1993	1994	1995	1996
REVENUES:				
Taxes (1)	\$ 1,181,471	\$ 1,390,748	\$ 1,508,344	\$ 1,540,565
Licenses, Fines, Permits and Fees	334,710	449,746	564,706	515,359
Rentals & Sales	42,734	67,154	78,267	87,430
Federal Government	11,668	12,340	71,685	104,380
Interest and Other Investment Income	17,486	16,996	29,485	42,603
Other Revenues	50,908	50,625	130,492	163,503
TOTAL REVENUES	1,638,977	1,987,609	2,382,979	2,453,840
EXPENDITURES:				
General Government (2)	196,807	327,882	445,874	443,165
Health and Children's Services (3)	345,683	380,570	498,833	530,187
Judicial and Public Safety (4)	186,774	200,689	238,737	241,873
Natural Resources and Environmental Control	39,092	84,870	87,355	120,993
Transportation (8)	131,021	127,691	99,746	111,999
Education (5)	545,084	578,478	603,491	669,046
Labor (6)				
Other (6)	19,082	20,552	24,485	39,254
Debt Service: (9)				
Principle				
Interest				
TOTAL EXPENDITURES	1,463,543	1,720,732	1,998,521	2,156,517
EXCESS OF REVENUES OVER EXPENDITURES	175,434	266,877	384,458	297,323
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Operating Transfers In	32,794	37,209	43,250	266,009
Operating Transfers Out	(176,942)	(220,397)	(245,185)	(491,794)
Other Sources (Uses)	4,726	4,075	14,751	646
NET OTHER USES	(139,422)	(179,113)	(187,184)	(225,139)
SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	36,012	87,764	197,274	72,184
FUND BALANCE AT BEGINNING OF YEAR	185,181	221,193	308,957	506,231
RESIDUAL EQUITY TRANSFER OUT TO COMPONENT UNITS				
FUND BALANCE AT END OF YEAR	\$ 221,193	\$ 308,957	\$ 506,231	\$ 578,415

(1) Taxes includes Personal Income Taxes and Business Taxes

(2) General Government summarizes the expenditures of the following General Government Departments; Legislative, Executive, Other Elective Offices, State and the Advisory Council for Exceptional Citizens.

(3) Health and Children's Services summarizes the expenditures of the Departments of Health and Social Services and Services for Children, Youth and Their Families

(4) Judicial and Public Safety summarizes the expenditures of the following Departments: Judicial, Legal, Corrections, Public Safety, Fire Prevention and the Delaware National Guard.

(5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.

(6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections, Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens. Effective fiscal year 2001 the category "Other" was eliminated and departments were grouped with similar or related functions. Fiscal year 2000 expenditures were restated for comparability purposes.

(7) Fund Balance has been restated due to the implementation of GASB Statement No. 34.

(8) The Department of Transportation is reported as an Enterprise Fund and is no longer part of the General Fund in 2002.

(9) Debt service activities are accounted for in the General Fund starting in fiscal year 2002.

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
\$ 1,566,922	\$ 1,797,295	\$ 1,864,867	\$ 1,925,457	\$ 2,023,671	\$ 2,032,305
581,344	586,908	641,972	733,593	728,265	555,409
96,747	100,226	92,777	102,831	312,228	26,592
72,575	58,381	6,144	66,473	46,333	52,279
41,940	47,643	44,443	61,761	82,971	46,756
<u>164,056</u>	<u>217,116</u>	<u>306,106</u>	<u>227,463</u>	<u>112,388</u>	<u>212,267</u>
2,523,584	2,807,569	2,956,309	3,117,578	3,305,856	2,925,608
473,140	528,965	795,965	816,346	881,189	817,258
534,840	563,689	599,021	664,909	737,169	781,383
263,195	274,368	310,939	352,344	374,342	386,457
77,484	80,932	104,788	105,847	108,086	100,218
109,889	109,964	117,498	132,481	144,690	
748,669	809,590	824,277	890,541	1,007,084	1,064,539
			15,775	18,132	27,131
64,802	67,178	88,785			
					79,757
					<u>34,134</u>
<u>2,272,019</u>	<u>2,434,686</u>	<u>2,841,273</u>	<u>2,978,243</u>	<u>3,270,692</u>	<u>3,290,877</u>
<u>251,565</u>	<u>372,883</u>	<u>115,036</u>	<u>139,335</u>	<u>35,164</u>	<u>(365,269)</u>
326,474	279,333	318,550	368,379	412,735	333,566
(484,481)	(430,367)	(447,595)	(474,086)	(597,693)	(30,020)
					(20,764)
<u>(158,007)</u>	<u>(151,034)</u>	<u>(129,045)</u>	<u>(105,707)</u>	<u>(184,958)</u>	<u>282,782</u>
93,558	221,849	(14,009)	33,628	(149,794)	(82,487)
578,415	671,973	893,822	879,813	912,355	(7) 1,004,126
			(1,086)		
<u>\$ 671,973</u>	<u>\$ 893,822</u>	<u>\$ 879,813</u>	<u>\$ 912,355</u>	<u>\$ 762,561</u>	<u>\$ 921,639</u>

STATE OF DELAWARE
REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30:
(Expressed in Thousands)

	1993	1994	1995	1996
Taxes (1)	\$ 1,329,056	\$ 1,549,291	\$ 1,680,781	\$ 1,720,945
Licenses, Fees, Permits & Fines	334,753	449,958	564,766	515,415
Rentals & Sales	52,979	78,972	91,001	101,883
Federal Government	332,575	391,306	478,070	587,288
Interest and Other Investment Income	30,336	26,858	42,369	53,207
Other Revenues	74,141	73,262	160,682	217,218
TOTAL REVENUES	\$ 2,153,840	\$ 2,569,647	\$ 3,017,669	\$ 3,195,956
General Government (2)	\$ 219,769	\$ 347,182	\$ 474,278	\$ 480,946
Health and Children's Services (3)	550,056	605,839	762,388	810,489
Judicial and Public Safety (4)	202,383	208,597	246,323	250,834
Natural Resources and Environmental Control	52,046	108,466	111,011	147,916
Transportation (7)	289,863	218,161	243,347	304,023
Education (5)	839,674	877,128	916,880	1,006,230
Labor (6)				
Other (6)	46,839	51,939	57,730	72,353
Capital Outlay (8)				
Debt Service - Principal (7)	85,098	104,720	84,163	88,827
Interest (7)	68,755	71,437	68,933	70,353
TOTAL EXPENDITURES	\$ 2,354,483	\$ 2,593,469	\$ 2,965,053	\$ 3,231,971

- (1) Taxes includes Personal Income Taxes and Business Taxes
- (2) General Government summarizes the expenditures of the following General Government Departments:
Legislative, Executive, Other Elective Offices, State, Finance, Administrative Services, Agriculture, Elections,
and the Advisory Council for Exceptional Citizens.
- (3) Health and Children's Services summarizes the expenditures of the Departments of Health and Social Services
and Services for Children, Youth and Their Families.
- (4) Judicial and Public Safety summarizes the expenditures of the following Departments: Judicial, Legal,
Corrections, Public Safety, Fire Prevention and the Delaware National Guard.
- (5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.
- (6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections,
Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens.
Effective fiscal year 2001, the category "Other" was eliminated and departments were grouped with similar or
related functions. Fiscal year 2000 expenditures were restated for comparability purposes.
- (7) The Department of Transportation is reported as an Enterprise Fund effective fiscal year 2002.
- (8) Presented by Department and function prior to fiscal year 2002

Sources: Fiscal Year 1993 Delaware's General Purpose Financial Statements
Fiscal Years 1994 - 2002 Delaware's Comprehensive Annual Financial Report

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
\$ 1,758,772	\$ 1,999,391	\$ 2,077,462	\$ 2,141,475	\$ 2,257,952	\$ 2,271,259
581,467	587,086	642,081	733,851	728,414	556,957
112,056	115,440	107,609	118,422	333,747	49,576
599,263	635,114	621,069	790,201	664,263	731,918
55,563	69,508	66,148	81,843	111,374	58,624
187,924	244,453	329,515	231,997	153,234	256,134
<u>\$ 3,295,045</u>	<u>\$ 3,650,992</u>	<u>\$ 3,843,884</u>	<u>\$ 4,097,789</u>	<u>\$ 4,248,984</u>	<u>\$ 3,924,468</u>
\$ 526,490	\$ 576,910	\$ 857,308	\$ 865,673	\$ 938,328	\$ 829,920
830,907	874,074	933,107	1,050,181	1,175,376	1,261,128
270,105	292,775	327,254	372,274	398,293	407,608
106,274	104,251	123,479	128,222	128,272	125,301
317,350	336,793	380,667	429,447	293,358	
1,085,730	1,157,766	1,193,678	1,297,611	1,446,986	1,480,615
			45,347	49,228	60,572
98,017	102,390	126,077			
					168,418
92,778	102,244	108,175	115,961	120,281	79,757
65,954	68,367	68,895	67,881	70,012	34,134
<u>\$ 3,393,605</u>	<u>\$ 3,615,570</u>	<u>\$ 4,118,640</u>	<u>\$ 4,372,597</u>	<u>\$ 4,620,134</u>	<u>\$ 4,447,453</u>

The following tables present pertinent demographic and economic statistics. These figures demonstrate that Delaware's growth in population surpassed the growth experienced by nearby states in the mid-Atlantic region (Maryland, New Jersey, New York and Pennsylvania) and the nation as a whole over the last ten years. Per capita personal income of Delaware residents advanced 3.1% in 2001, with Delaware's per capita personal income the 11th highest in the nation.

Population

(in Thousands)

Calendar Year	Delaware		Mid-Atlantic Region		United States	
	Population	Change	Population	Change	Population	Change
1992	695	1.6%	44,392	0.7%	256,514	1.4%
1993	706	1.6%	44,717	0.7%	259,919	1.3%
1994	718	1.7%	44,970	0.6%	263,126	1.2%
1995	730	1.7%	45,186	0.5%	266,278	1.2%
1996	741	1.5%	45,384	0.4%	269,394	1.2%
1997	751	1.3%	45,580	0.4%	272,647	1.2%
1998	763	1.6%	45,822	0.5%	275,854	1.2%
1999	775	1.6%	46,106	0.6%	279,040	1.2%
2000	786	1.4%	46,369	0.6%	282,125	1.1%
2001	796	1.3%	46,526	0.3%	284,797	0.9%

Source: U.S. Department of Commerce

Per Capita Personal Income

Year	Delaware	Change	United States	Change	Delaware as Percent of U.S.
1992	\$ 22,936	3.0%	\$ 20,960	4.7%	109%
1993	\$ 23,590	2.9%	\$ 21,539	2.8%	110%
1994	\$ 24,218	2.7%	\$ 22,340	3.7%	108%
1995	\$ 24,992	3.2%	\$ 23,255	4.1%	107%
1996	\$ 26,140	4.6%	\$ 24,270	4.4%	108%
1997	\$ 26,807	2.6%	\$ 25,412	4.7%	105%
1998	\$ 28,662	6.9%	\$ 26,893	5.8%	107%
1999	\$ 29,354	2.4%	\$ 27,880	3.7%	105%
2000	\$ 31,500	7.3%	\$ 29,770	6.8%	106%
2001	\$ 32,472	3.1%	\$ 30,472	2.4%	107%

Source: U.S. Department of Commerce

Recent trends in employment in the State by major categories for the last five years are illustrated in the following table. The table on the following page depicts non-agricultural employment growth for Delaware, the mid-Atlantic region and the U.S. for 1997-2001. Delaware's non-agricultural employment represents approximately 98% of the State's workers.

Composition of Delaware Labor Force

For the Calendar Year Ended December 31

(in Thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Civilian Labor Force Data					
Employed (1)	365.7	377.4	375.9	392.9	404.1
Unemployed	<u>15.4</u>	<u>14.9</u>	<u>13.7</u>	<u>16.2</u>	<u>14.7</u>
Total	<u>381.1</u>	<u>392.3</u>	<u>389.6</u>	<u>409.1</u>	<u>418.8</u>
Non-Agricultural Employment (2)					
Manufacturing					
Durable	15.8 (3)	17.9	18.6	18.6	17.2
Non-Durable	<u>42.0</u>	<u>41.8</u>	<u>41.2</u>	<u>39.8</u>	<u>38.6</u>
Total Manufacturing	<u>57.8</u>	<u>59.7</u>	<u>59.8</u>	<u>58.4</u>	<u>55.8</u>
Non-Manufacturing					
Wholesale and Retail Trade	85.3	87.0	89.7	91.5	91.1
Services	107.2	112.2	117.3	121.2	122.4
Government:					
Federal	5.5	5.4	5.4	5.8	5.5
State and Local	47.7	49.0	49.7	50.8	51.3
Construction	21.9	22.5	24.6	24.4	24.0
Transportation, Communication and Public Utilities	15.7	16.2	17.2	17.4	17.2
Finance, Insurance, and Real Estate	<u>46.8</u>	<u>48.2</u>	<u>49.2</u>	<u>50.5</u>	<u>51.9</u>
Total Non-Manufacturing	<u>330.1</u>	<u>340.5</u>	<u>353.1</u>	<u>361.6</u>	<u>363.4</u>
Total	<u>387.9</u>	<u>400.2</u>	<u>412.9</u>	<u>420.0</u>	<u>419.2</u>

(1) This indicator reflects the number of Delaware residents, 16 years of age or older, who worked at least one hour for pay or profit, and includes employment in agriculture, proprietors, self-employed, unpaid family workers and domestic workers.

(2) This indicator includes persons on Delaware non-agricultural establishment payrolls, regardless of their place of residence, and does not include proprietors, self-employed, unpaid family workers, domestic workers, or military personnel.

(3) Reflects the temporary closing of two automobile production plants due to retooling for new models. Both plants reopened in 1997.

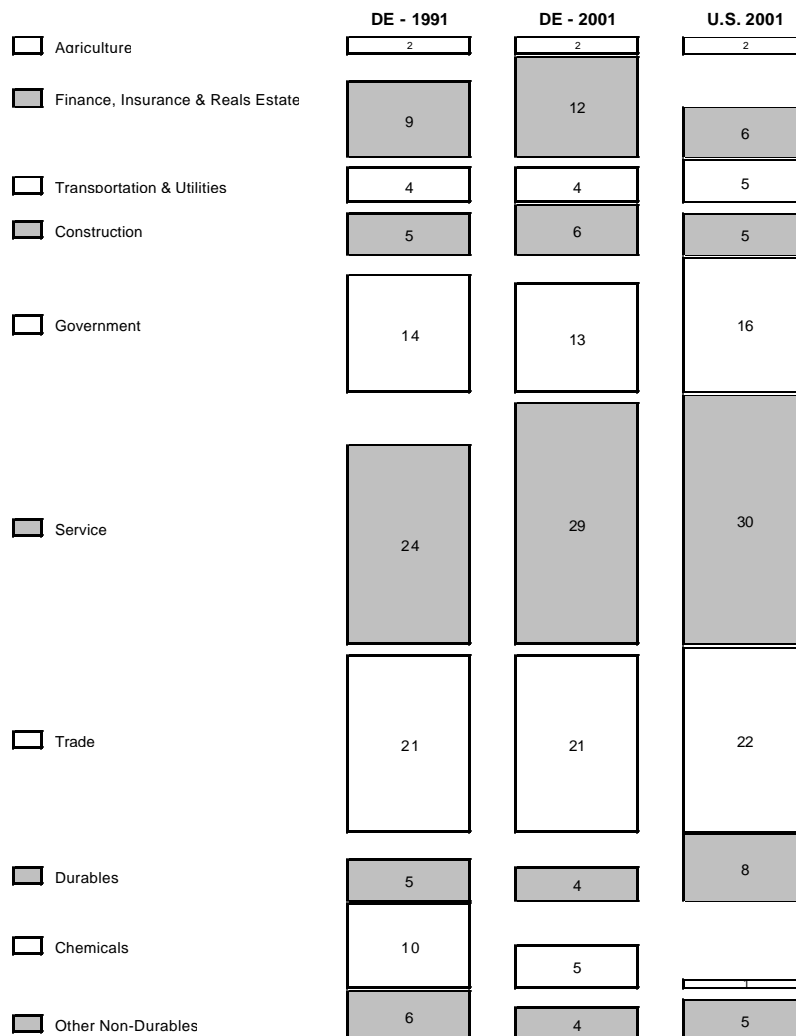
Source: Delaware Department of Labor

Non-Agricultural Employment Growth Rates

	1997	1998	1999	2000	2001
Delaware	3.1%	3.2%	3.2%	1.7%	(0.2)%
Mid-Atlantic Region	2.0%	2.0%	2.4%	2.2%	0.3%
United States	2.6%	2.6%	2.4%	2.2%	0.2%

The following chart shows Delaware's employment base has enjoyed vigorous growth in historically smaller sectors within the State. Once heavily reliant on the manufacturing base, Delaware has experienced a robust expansion in the finance, insurance, and real estate sector, as well as the services sector.

Percentage Distribution of Employment



Sources: U.S. Department of Labor and Delaware Department of Labor

Delaware's unemployment rate for 2001 was 3.5%, lower than the regional rate of 4.3% and the national rate of 4.8%. The following table presents the average annual unemployment rates for Delaware, the mid-Atlantic region and the United States for the last ten years.

Unemployment Rates

Year	Delaware	Mid-Atlantic Region	United States
1992	5.3	7.9	7.5
1993	5.3	7.2	6.9
1994	4.9	6.3	6.1
1995	4.3	5.9	5.6
1996	5.2 (1)	5.7	5.4
1997	4.0	5.2	4.9
1998	3.8	4.6	4.5
1999	3.5	4.2	4.2
2000	4.0	4.1	4.0
2001	3.5	4.3	4.8

(1) Reflects the temporary closing of two automobile production plants for re-tooling of new models. Both plants reopened in 1997.

Sources: U.S. Department of Labor and Delaware Department of Labor

The table below lists the ten largest commercial and industrial employers in the State as of June 30, 2002.

Delaware's Largest Private Employers

Name	Nature	Number of Employees
MBNA America	Commercial banking	11,500
E.I. duPont de Nemours Co., Inc.	Chemicals and energy corporate headquarters	11,400
Christiana Care Health Services	Hospital complex and home healthcare subsidiary	6,000
Mountaire Farms of Delmarva, Inc.	Food processor	3,300
First USA Bank	Commercial banking	3,000
Perdue Farms, Inc.	Boilers, feed and grains	2,600
Alfred I. duPont Institute	Children's health care facility	2,500
AstraZeneca, Inc.	Pharmaceuticals and specialty chemicals; corporate headquarters	2,300
DaimlerChrysler	Automotive assembly	2,200
Wilmington Trust Company	Commercial banking	2,200

The assessed values of real estate are determined by each County within the State for taxation purposes. The following table depicts the assessed and full valuation of all taxable real property of the State as well as a comparison of the total value of residential, commercial and non-building construction contracts and the total bank deposits for the years 1992 through 2001. The next table depicts public and higher education school enrollments for the last ten years.

Property Valuation, Construction and Bank Deposits

(in Millions)

Calendar Year	Assessed Valuation (1)	Full Valuation	Value of Construction Contracts (2)	Bank Deposits (3)
1992	\$16,690	\$37,788	\$786	\$34,800
1993	\$17,116	\$28,812	\$709	\$36,070
1994	\$17,518	\$39,826	\$705	\$36,320
1995	\$17,894	\$39,319	\$863	\$40,746
1996	\$18,212	\$41,793	\$800	\$42,720
1997	\$18,663	\$43,264	\$934	\$62,149
1998	\$19,132	\$45,961	\$892	\$63,837
1999	\$19,519	\$47,431	\$1,036	\$73,226
2000	\$19,940	\$51,998	\$982	\$88,733
2001	\$20,303	\$55,367	\$934	\$94,413

(1) The assessed and full valuation of all taxable real property as of June 30 of each year.

(2) The total value of construction contracts awarded as of December 31 of each year.

(3) The total value of bank deposits as of December 31 of each year.

Sources: Delaware Department of Education
Delaware Higher Education Commission

School Enrollment

School Year	Public School Enrollment (1)	Higher Education Enrollment	Total
1992	103,074	42,143	145,217
1993	104,284	42,760	147,044
1994	105,619	43,192	148,811
1995	107,348	42,940	150,288
1996	109,538	45,537	155,075
1997	112,160	44,241	156,401
1998	113,595	47,115	160,710
1999	113,699	47,436	161,135
2000	114,693	44,707	159,400
2001	115,545	47,031	162,576

(1) Excludes children of military personnel living on Dover Air Force Base who attend Base schools and whose education is federally funded.

Sources: Delaware Department of Education
Delaware Higher Education Commission

Debt Limits

There is no Constitutional debt limit of the State.

In 1991, the General Assembly passed legislation to replace the pre-existing statutory debt limits with a three-part debt limit, effective July 1, 1991, as follows:

First, the aggregate principle amount of new “tax-supported obligations of the State” (hereinafter defined) which may be authorized in any one fiscal year (excluding refunding bonds) may not exceed 5% of estimated net budgetary General Fund revenue for that fiscal year. This is determined by a joint resolution approved by a majority of the members elected to each house of the General Assembly and signed by the Governor in connection with the adoption of the annual Budget Appropriation Bill for that fiscal year (the 5% Rule). The June 2002 budgetary General Fund revenue estimate for fiscal year 2003 was \$2,364.8 million, thus a total of \$118.2 million of new general obligation debt was authorized under the 5% Rule for fiscal 2003. For fiscal year 2003, \$158.6 million was authorized (including \$40.4 million of reprogrammed general obligation authorization from prior years). The authorization for the issuance of the Bonds consists of authorizations from fiscal 2003 as well as prior years.

The level of new tax-supported debt authorization permitted under the 5% Rule is set out in the following table. The figures assume the June 2002 budgetary General Fund revenue projections of the Delaware Economic and Financial Advisory Council (DEFAC) for fiscal 2004. From DEFAC’s fiscal 2004 estimate, the figures assume 5.2% annual revenue growth for fiscal 2005, 5.3% annual revenue growth for fiscal 2006, and 5.0% annual growth for 2007 and 2008, respectively.

The 5% Rule

(in Millions)

	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>
Estimated Net Budgetary General Fund Revenue	\$ 2,445.0	\$ 2,572.1	\$ 2,708.5	\$ 2,843.9	\$ 2,986.1
Projected New Tax-Supported Debt Authorizations	\$ 122.3	\$ 128.6	\$ 135.4	\$ 142.2	\$ 149.3

Second, no “tax-supported obligations of the State” and no “Transportation Trust Fund (“Trust Fund” or “TTF”) debt obligations” (hereinafter defined) of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15% of the estimated budgetary General Fund revenue plus Transportation Trust Fund revenue for the fiscal year following the fiscal year in which such obligation is incurred (the “15% Test”).

Third, no general obligation debt (with certain exclusions) may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding

obligations will exceed the estimated cumulative cash balances (including all reserves) for the fiscal year following the fiscal year in which such obligation is incurred (the "Cash Balances Test") as estimated by the Secretary of Finance.

"Tax-supported obligations of the State" include: a) all obligations of the State or any agency or authority thereof to which the State's full faith and credit is pledged and; b) all obligations of the State or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions, and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the General Assembly. Tax-supported obligations do not include: a) obligations incurred to acquire a like principal amount of full faith and credit obligations issued by a local school district to the extent local school district obligations are not in default; b) any obligation notes of the Delaware Transportation Authority; c) any tax or other revenue anticipation notes or bonds of the State; d) obligations to the extent that the debt service is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-budgetary General Fund source.

"Transportation Trust Fund debt obligations" includes all debt obligations of the Delaware Transportation Authority, including all obligations extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which in any case are payable from the Trust Fund. Trust Fund debt obligations do not include any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-State source.

General Obligation Debt

The following tables reflects the outstanding general obligation debt of the State as of June 30, 2002, of which a portion is supported by budgetary General Fund revenue and a portion of which is supported by budgetary Special Funds.

Outstanding General Obligation Debt (in Millions)

General Obligation Debt Supported by Budgetary General Fund Revenue

State Facilities	\$ 415.8
School Facilities (State Share)	124.3
Miscellaneous	<u>3.4</u>
Subtotal	\$ 543.5

General Obligation Debt Supported by Budgetary Special Funds

Highway and Other Transportation Improvements	\$ 5.2
School Facilities (Local Share)	158.8
Housing Authority Loans	<u>2.4</u>
Subtotal	\$ <u>166.4</u>
Total General Obligation Debt Outstanding	<u><u>\$ 709.9</u></u>

Debt Burden Comparison

The State's general obligation debt is \$709.9 million as of June 30, 2002. Approximately 82% of the debt is scheduled to mature within ten years and approximately 95% is scheduled to mature within fifteen years. Total general obligation debt per capita is \$687 as of June 30, 2002.

The following table outlines the State's outstanding general obligation debt balance and bond ratings and demonstrates the changes in the State's general obligation debt burden since fiscal year 1993.

Ratio of Annual General Obligation Debt Service to Total Revenues and Expenditures All Governmental Fund Types

(in Thousands)

Fiscal Year	Total Debt Service	Total Revenues	Ratio of Debt Service to Total Revenues	Total Expenditures	Ratio of Debt Service to Total Expenditures
1993	\$ 95,825	\$ 2,153,840	4.4 %	\$ 2,354,483	4.1 %
1994	93,300	2,569,647	3.6	2,593,449	3.6
1995	94,217	3,017,669	3.1	2,965,053	3.2
1996	92,564	3,195,956	2.9	3,231,971	2.9
1997	92,374	3,295,045	2.8	3,393,605	2.7
1998	103,876	3,650,992	2.8	3,615,570	2.9
1999	109,990	3,843,884	2.9	4,118,640	2.7
2000	116,935	4,097,789	2.9	4,372,597	2.7
2001	120,443	4,248,984	2.8	4,620,134	2.6
2002	113,664	3,924,468	2.9	4,398,061	2.6

Sources: Fiscal year 1993 - Delaware's General Purpose Financial Statements

Fiscal years 1994 - 2002 - Delaware's Comprehensive Annual Financial Report

Ratio of General Obligation Bonded Debt Per Capita

(in Thousands)

Fiscal Year	Population	Total Principal Outstanding	Bonded Debt per Capita	Bond Ratings Moody's	Standard & Poor's
1993	706	\$ 560,749	\$ 794	Aa	AA+
1994	718	577,690	805	Aa	AA+
1995	730	561,685	769	Aa1	AA+
1996	741	572,956	773	Aa1	AA+
1997	751	654,676	872	Aa1	AA+
1998	763	686,116	899	Aa1	AA+
1999	775	720,171	929	Aa1	AA+
2000	786	738,176	939	Aaa	AAA
2001	796	653,701	821	Aaa	AAA
2002	804 (1)	709,958	883	Aaa	AAA

(1) Estimated - Assumes 1% growth.

Sources: U.S. Census Bureau and Delaware Department of Finance

Revenue Bond Coverage

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Delaware Transportation Authority. Data for the State's Component Units – Delaware Housing Authority and Delaware State University is also outlined in the following tables. The State is not directly or contingently liable for any indebtedness of the Delaware State Housing Authority or the Delaware State University. Further information for these authorities may be found in the Notes to the Financial Statements, Revenue Bonds and Notes Payable.

Delaware Transportation Authority

(in Thousands)

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Direct Operating Expenses</u>	<u>Net Available for Debt Service</u>	<u>Debt Service Requirements</u>	<u>Coverage</u>
1993	\$ 176,000	\$ 71,300	\$ 104,700	\$ 69,000	1.52
1994	199,200	79,500	119,700	64,200	1.86
1995	227,800	86,600	141,200	67,100	2.10
1996	229,771	95,859	133,912	67,704	1.98
1997	233,913	105,371	128,542	67,064	1.92
1998	254,887	119,428	135,459	61,761	2.19
1999	272,398	119,816	152,582	66,018	2.31
2000	284,167	118,739	165,432	66,139	2.50
2001	299,962	147,065	152,897	72,852	2.10
2002	297,894	140,940	156,954	74,834	2.10

Source: Delaware Department of Transportation

Delaware State Housing Authority

(in Thousands)

<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Direct Operating Expenses</u>	<u>Net Available for Debt Service</u>	<u>Debt Service Requirements</u>	<u>Coverage</u>
1993	\$ 111,458	\$ 1,633	\$ 109,825	\$ 73,603	1.49
1994	174,179	1,444	172,735	120,227	1.44
1995	71,410	3,474	67,936	55,868	1.22
1996	85,703	2,985	82,718	78,317	1.06
1997	76,155	2,831	73,324	75,881	0.97 (2)
1998	77,098	3,102	73,996	61,805	1.20
1999	80,079	1,825	78,254	77,961	1.00
2000	128,207	56,582	71,625	69,104	1.04
2001	106,381	34,772	71,609	67,091	1.07
2002	179,672	40,731	138,941	130,908	1.06

(1) Gross revenue represents total operating revenues, interest income on investments, mortgage principle repayments and bond proceeds.

(2) Shortages are the result of timing differences between revenue receipts and actual date of debt service payments.

Source: Delaware State Housing Authority

Delaware State University

(in Thousands)

<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Direct Operating Expenses (2)</u>	<u>Net Available for Debt Service</u>	<u>Debt Service Requirements</u>	<u>Coverage</u>
1993	\$ 13,397	\$ 11,190	\$ 2,207	\$ 723 (3)	3.05
1994	16,587	15,734	1,853	841	2.20
1995	20,138	16,905	3,233	1,087	2.97
1996	21,043	18,756	2,287	1,381	1.66
1997	21,688	18,226	3,462	1,678	2.06
1998	23,702	19,770	3,932	1,665	2.36
1999	26,262	20,203	6,059	1,429	4.24
2000	29,899	14,757	15,142	864	17.53
2001	28,858	14,689	14,269	1,546	9.23
2002	32,170	15,447	16,723	1,614	10.36

(1) Gross revenues represents total revenues less State appropriations.

(2) Direct Operating Expenses represent total unrestricted educational and general expenditures less State appropriations.

(3) Partial year debt service.

Source: Delaware State University